

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Lapeer	County Lapeer
Audit Date 6/30/05	Opinion Date 8/19/05	Date Accountant Report Submitted to State: 12/12/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Layton and Richardson, P.C.			
Street Address 1000 Coolidge Road		City East Lansing	State MI
Accountant Signature <i>Richard R. Crouch, CPA</i>		ZIP 48823	
		Date 12/12/05	

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Commission
City of Lapeer
Lapeer, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lapeer, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Lapeer, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the Lapeer Housing Commission Fund, which should be included to conform with U.S. generally accepted accounting principles. The amounts by which the financial statements would change if this fund were included cannot be determined.

In our opinion, except for the departures described above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lapeer, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the required supplementary information on pages 3 through 16 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lapeer, Michigan's basic financial statements. The accompanying introductory section, supplemental financial information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2005 on our consideration of the City of Lapeer, Michigan's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Certified Public Accountants

East Lansing, Michigan
August 19, 2005

Management's Discussion and Analysis

Our discussion and analysis of the City of Lapeer's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- State Revenue Sharing Funds continue to be reduced. The city received \$818,099 in FY 2004-2005 compared to \$862,709 in FY 2003-2004, this is a reduction of \$44,610 or 5.2%. When compared to State Revenue Sharing Funds received in Fiscal Year 2001-2002, actual State Revenue Sharing Funds received reduced from \$1,037,526 to \$818,099 or a reduction of \$219,427 or 21.1%.
- The city income tax revenue of \$2,243,650 in fiscal year 2004-2005 was \$79,614 (3.7%) more than the prior year revenue of \$2,164,036.
- Interest on investments in the General Fund were at \$72,149 in fiscal year 2004-2005 compared to \$19,106 the prior year. This was an increase of \$53,042 or 277.6%. This increase in revenue is due to increases in the interest rates and the city expanding its investments to include certificate of deposits.
- The city sold the MESC Building at 307 S. Court to Brechtwood Mortgage Company at a price of \$426,000. The proceeds after payment of closing costs were appropriated for the purchase of the Lapeer County Abstract Building located at 194 W. Nepessing Street.
- The city entered into several installment purchase contracts during the fiscal year which included \$221,000 for the purchase of two front end loaders and one tractor loader and \$152,000 for the purchase of the Lapeer County Abstract Building located at 194 W. Nepessing Street.
- There were 51 homes constructed during this fiscal year. The homes were constructed in the several subdivision developments now under development which include Brookwood which is planned for 218 single family sites valued at \$180,000 to \$250,000. The current phase in development has 78 sites. Carriage Hill is planned as an 80 unit attached condominium development valued at \$129,000. The current phase in development has 24 condominiums. Devonshire is planned for 45 senior condominiums valued at \$200,000 and is currently in development. Woodbridge which is planned for 188 unit cluster condominium valued at \$220,000 to \$300,000. The current phase in development has 80 condominiums. Golfview is planned for 58 single family homes valued at \$300,000 and is currently in development. Rolling Hills No. 5 is planned for 34 single family units valued at \$175,000 to \$270,000 and is currently in development.
- Property along Demille Boulevard has been rezoned and a site plan has been approved for a 134,000 +/- square foot retail shopping center which will include a large department store (88,800 sq ft) with two smaller bays (18,000 sq ft and 20,044 sq ft) for other shops. Additionally, it is planned for 2 or 3 additional buildings along Demille Boulevard which may be used for a bank or restaurants. It has been announced that Kohl's Department Store will locate in the large bay and it is anticipated that they will open in 2006.
- Standard & Poor's has upgraded the rating for the city's general obligation bonds and Building Authority general obligation bonds from a BBB+ to an A-.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements provide more detailed information about the City's most significant funds- not the City as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases* or *decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City:

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, public works, parks department, and general administration. Property taxes, income taxes, franchise fees, and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and auto parking facilities are reported here.
- Component units – The City includes five separate legal entities in its report – Brownfield Redevelopment Authority, Downtown Development Authority, Economic Development Corporation, Local Development Finance Authority, and Tax Increment Finance Authority.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes (like the Infrastructure Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Michigan State Housing Development Authority). The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the City's Motor Pool Fund.

The City as Trustee

The City is the trustee, or *fiduciary*, for its Mt. Hope Cemetery Perpetual Care Fund. It is also responsible for other assets as an agent for others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

Table 1 was summarized from the government-wide Statement of Net Assets. The City's combined net assets (for the primary government) increased from \$27,483,820 to \$29,039,500, an increase of \$1,555,680 or 5.7%. In the prior year the net assets increased from \$25,903,684 to \$27,483,820, an increase of \$1,580,136 or 6.1%. The net assets for the governmental activities increased from \$16,437,861 to \$17,813,753, an increase of \$1,375,892 or 8.4%. In the prior year the net assets increased from \$15,666,017 to \$16,437,861, an increase of \$771,844 or 4.9%. The net assets for the business-type activities increased from \$11,045,958 to \$11,225,746, an increase of \$179,788 or 1.6%. In the prior year the net assets increased from \$10,237,667 to \$11,045,958, an increase of \$808,291 or 7.9%.

Table 1
Net Assets
(In Thousands)

	Governmental Activities 2005	Business-type Activities 2005	Total Primary Government 2005
Current and other assets	\$ 7.2	\$ 2.6	\$ 9.8
Capital assets	<u>18.3</u>	<u>9.3</u>	<u>27.6</u>
Total assets	<u>25.5</u>	<u>11.9</u>	<u>37.4</u>
Long-term debt			
Outstanding	6.5	0.4	6.9
Other liabilities	<u>1.2</u>	<u>0.3</u>	<u>1.5</u>
Total liabilities	<u>7.7</u>	<u>0.7</u>	<u>8.4</u>
Net assets:			
Invested in capital assets,			
Net of debt	11.9	8.8	20.7
Restricted	0.2	2.2	2.4
Unrestricted (deficit)	<u>5.7</u>	<u>0.2</u>	<u>5.9</u>
Total net assets	<u>\$ 17.8</u>	<u>\$ 11.2</u>	<u>\$ 29.0</u>

	Governmental Activities <u>2004</u>	Business-type Activities <u>2004</u>	Total Primary Government <u>2004</u>
Current and other assets	\$ 7.2	\$ 2.6	\$ 9.8
Capital assets	<u>18.2</u>	<u>9.1</u>	<u>27.3</u>
Total assets	<u>25.4</u>	<u>11.7</u>	<u>37.1</u>
Long-term debt			
Outstanding	7.4	0.4	7.8
Other liabilities	<u>1.6</u>	<u>0.2</u>	<u>1.8</u>
Total liabilities	<u>9.0</u>	<u>0.6</u>	<u>9.6</u>
Net assets:			
Invested in capital assets,			
Net of debt	10.7	8.7	19.4
Restricted	1.5	2.2	3.7
Unrestricted (deficit)	<u>4.2</u>	<u>0.2</u>	<u>4.4</u>
Total net assets	<u>\$16.4</u>	<u>\$ 11.1</u>	<u>\$ 27.5</u>

Governmental Activities

As stated previously, the net assets of the City's governmental activities increased by \$1,375,892.39 or 8.4%. Unrestricted net assets – the part of net assets that can be used to finance day –to –day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-is recorded as a surplus of \$5,702,880.06.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the city.

Table 2
Changes in Net Assets
(In Millions)

	Governmental <u>Activities</u> <u>2005</u>	Business-Type <u>Activities</u> <u>2005</u>	Total Primary Government <u>2005</u>
Revenues:			
Program revenues:			
Charges for Services	\$ 2.8	\$ 4.4	\$ 7.2
Operating grants and contributions	0.9	0.0	0.9
General revenues:			
Property taxes	2.2	0.0	2.2
Income Tax	2.3	0.0	2.3
Other taxes	0.0	0.0	0.0
Other	1.3	0.1	1.4
Total Revenues	<u>9.5</u>	<u>4.5</u>	<u>14.0</u>
Expenses:			
General government	\$ 1.4	\$ 0.0	\$ 1.4
Public safety	2.6	0.0	2.6
Public works	0.9	0.0	0.9
Community development and enrichment	0.6	0.0	0.6
Highway and streets	0.9	0.0	0.9
Culture and recreation	2.0	0.0	2.0
Other	0.2	0.0	0.2
Interest on long-term Debt	0.3	0.0	0.3
Water	0.0	1.8	1.8
Wastewater	0.0	1.9	1.9
Auto parking	0.0	0.1	0.1
Total Expenses	<u>8.9</u>	<u>3.8</u>	<u>12.7</u>
Increase in net assets			
Before transfers	0.6	0.7	1.3
Transfers	0.8	(0.6)	0.2
Increase in Net Assets	1.4	0.1	1.5
Net assets, July 1	16.4	11.1	27.5
Prior period adjustment	0.0	0.0	0.0
Net assets, June 30	<u>17.8</u>	<u>11.2</u>	<u>29.0</u>

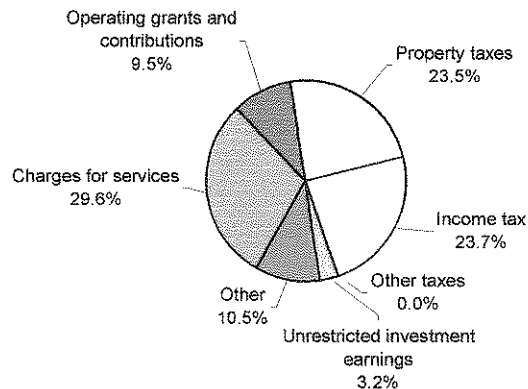
Table 2
Changes in Net Assets
(In Millions)

	<u>Governmental Activities</u> <u>2004</u>	<u>Business-Type Activities</u> <u>2004</u>	<u>Total Primary Government</u> <u>2004</u>
Revenues:			
Program revenues:			
Charges for Services	\$ 2.7	\$ 4.5	\$ 7.2
Operating grants and contributions	1.1	0.0	1.1
General revenues:			
Property taxes	2.2	0.0	2.2
Income Tax	2.2	0.0	2.2
Other taxes	0.0	0.0	0.0
Other	<u>0.8</u>	<u>0.1</u>	<u>0.9</u>
Total Revenues	<u>9.0</u>	<u>4.6</u>	<u>13.6</u>
Expenses:			
General government	\$ 1.5	\$ 0.0	\$ 1.5
Public safety	2.2	0.0	2.2
Public works	0.6	0.0	0.6
Community development and enrichment	0.8	0.0	0.8
Highway and streets	1.3	0.0	1.3
Culture and recreation	1.6	0.0	1.6
Other	0.6	0.0	0.6
Interest on long-term Debt	0.3	0.0	0.3
Water	0.0	1.8	1.8
Wastewater	0.0	1.7	1.7
Auto parking	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>
Total Expenses	<u>8.9</u>	<u>3.6</u>	<u>12.5</u>
Increase in net assets			
Before transfers	0.1	1.0	1.1
Transfers	<u>0.6</u>	<u>(0.1)</u>	<u>0.5</u>
Increase in Net Assets	0.7	0.9	1.6
Net assets, July 1	15.7	10.2	25.9
Prior period adjustment	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Net assets, June 30	<u>16.4</u>	<u>11.1</u>	<u>27.5</u>

The following charts illustrate the distribution of revenues by source and the program revenues compared with the expenses for the governmental activities.

FY 2004-2005

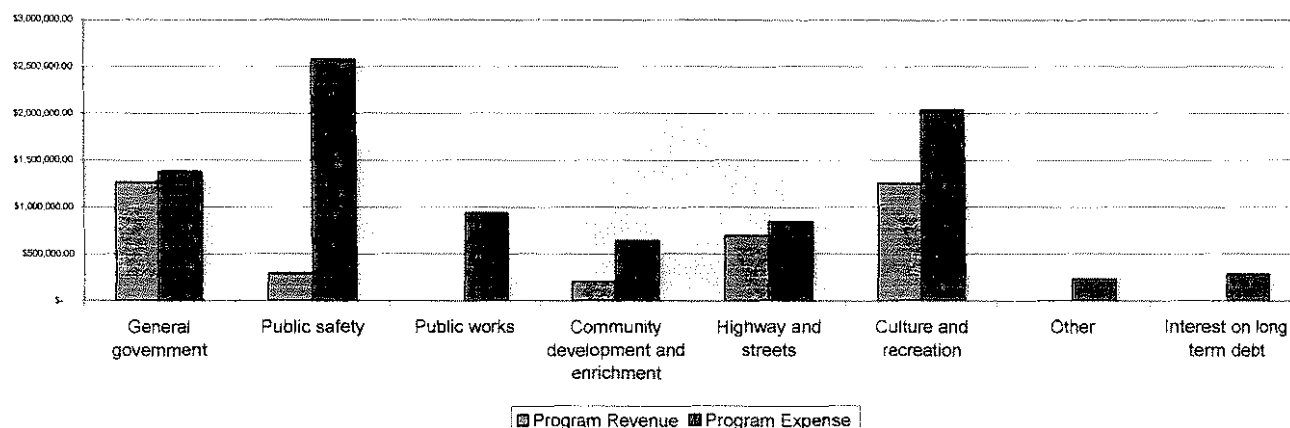
Revenues by Source - Governmental Activities



Total revenue from all sources totaled \$14.0 million of which 9.5 million was from governmental activities and 4.5 million was from business-type activities. In the prior year, total revenue from all sources totaled \$13.6 million of which 9.0 million was from governmental activities and 4.6 million was from business-type activities. This results in an increase in total revenue from all sources of \$0.4 million or 2.9%. The governmental activities revenue increased \$0.5 million or 5.6% while the business-type activities revenue decreased \$0.1 or 2.2%. The governmental activities received 23.5% or 2.2 million from property taxes. The millage rate of 8.7911 remained unchanged from the prior year and marks the 16th consecutive year the city has maintained this millage. The city also received 23.7% or 2.3 million from income tax revenue. 29.6% of governmental activity was funded from charges for services. 9.5% of governmental activity was funded from operating grants and contributions. The remaining 13.7% of revenue is from unrestricted investment earnings, other taxes, and other revenue.

FY 2004-2005

Expenses and Program Revenues - Governmental Activities



The governmental activities of the city had an expense of \$8.9 million dollars for the past fiscal year. Due to utilizing full accrual on the government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current year depreciation would be included as an expense.

The \$8.9 million for governmental activities is funded from \$3.7 million in program revenues. The balance of this cost is funded from taxes and other revenues. The largest expenditures for governmental activities occur in public safety at \$2.6 million, culture and recreation at \$2.0 million, general government at \$1.4 million, and highways and streets at \$0.9 million. The program revenues received as a percentage of the expense for these activities are 91% for general government, 11% for public safety, 81% for highways and streets, and 61% for culture and recreation.

Other governmental activity expenditures are community development and enrichment, \$0.6 million, public works, \$0.9 million, interest on long-term debt, \$0.3 million, and other, \$0.2 million.

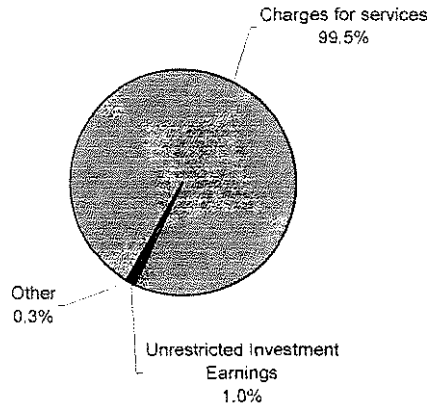
Business-type Activities

The net assets of the City's business-type activities increased from \$11,045,958 to \$11,225,746, an increase of \$179,788 or 1.6%. In the prior year, the net assets of the City's business-type activities increased from \$10,237,667 to \$11,045,958, an increase of \$808,291 or 7.9%.

The following charts illustrate the distribution of revenues by source and the program revenues compared with the expenses for the business-type activities.

FY 2004-2005

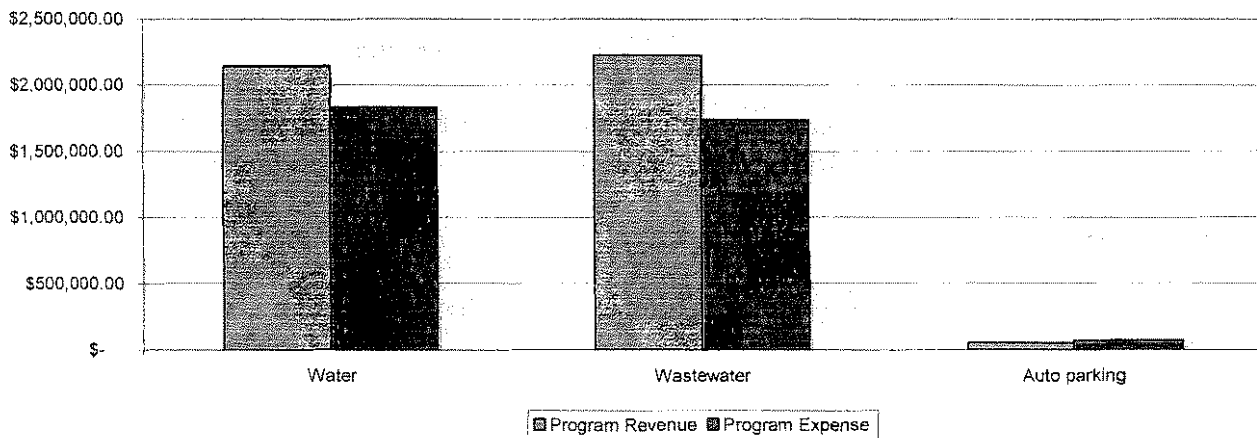
Revenues by Source - Business-type Activities



The largest source of revenue for the business-type activities is charges for services which represents 99.5% of the total revenue. The business-type activities include the water fund, wastewater fund, and auto parking fund. The total revenue received was \$4.5 million or 4.4 million from charges for services.

FY 2004-2005

Expense and Program Revenues - Business-type Activities



The city is a member of the Greater Lapeer County Utilities Authority (G.L.C.U.A.) which purchases its water from the Detroit Water System. The city's water fund received a 1.0% decrease in rates from the Detroit Water System effective July 1, 2004. The rate reduced from \$12.96 per 1,000 cubic feet to \$12.83 per 1,000 cubic feet. The water fund total operating expenses were \$1.8 million compared to \$2.2 million in program revenues. The purchase of water for this fiscal year was \$805,974 and represents 46% of the funds operating expenses.

The wastewater fund total operating expenses were \$1.9 million compared to \$2.2 million in program revenues.

THE CITY'S FUNDS

The general fund revenue was \$6.7 million, an increase of \$573 thousand from the prior year. The expenditures were \$4.9 million compared to \$4.7 million the prior year, or an increase of \$199 thousand. The net transfers to other funds were \$1.1 million compared to \$1.1 million the prior year, or a decrease of \$62 thousand. The unreserved fund balance increased from \$1,290,119.67 to \$2,093,448.45 or an increase of \$803,328.78 or 62.3%. In the prior year, the unreserved fund balance increased from \$942,186.85 to \$1,290,119.67 or an increase of \$347,932.82 or 36.9%.

The Major Street fund continued the work on the Downtown Improvement project which included milling and resurfacing Nepessing Street, replacement of curb and gutter, sidewalk, landscaping, lighting and the gateway entrance. The construction cost for this project in this fiscal year was \$54,780. The McCormick Street Resurfacing project incurred cost in the amount of \$9,215. The M-24/Demille Intersection Improvements incurred a cost of \$31,978 which was funded by Transfers in from TIFA 1 in the amount of \$18,887 and TIFA 2 in the amount of \$13,091. The WalMart off site improvements began in this fiscal year with expenditures amounting to \$6,690. This fund receives revenues from grants, donations, and transfers from bond construction funds which vary greatly from year to year. In the current year the total revenues were \$0.6 million, the expenditures were \$0.7 million, and the net transfers in were \$0.1 million. The fund balance decreased from \$574,496 to \$417,640 or a decrease of \$156,856 or 27.3%. In the prior year, the fund balance decreased from \$1,165,612 to \$574,496 or a decrease of \$591,116.

The Park Fund revenues increased from \$1.3 million to \$1.4 million, an increase of \$136,360, or 11% from the prior year. This increase is due primarily to an increase in the annual pass sales in the amount of \$163,873. In the prior year the revenues increased from \$1.1 million to \$1.3, an increase of \$136,502 or 12%. The expenditures increased from \$1.8 million to \$2.0 million, an increase of \$217,070 or 12%. This increase is due to capital expenditures for the settlement of the Community Center Roof Replacement in the amount of \$400,000 and the reduction in the Parks capital expenditures this year of \$182,023. In the prior year the expenditures increased from \$1.6 million to \$1.8 million, an increase of \$234,321 or 15%. The net transfers increased from \$504 thousand to \$854 thousand an increase of \$350,175 or 69%. In the prior year, the net transfers amounted to \$504 thousand which was an increase of \$130,641 from the prior year. The fund balance increased from \$39 thousand to \$292 thousand or an increase of \$253 thousand. In the prior year, the fund balance reduced from \$56 thousand to \$39 thousand or a reduction of \$17 thousand.

General Fund Budgetary Highlights

The difference between the original budget and the amended budget was an increase of \$457,308 or 6.63%, which is summarized as follows:

- \$426,000 increase to provide funding for final costs associated with the MESC Building and provide funding to the Downtown Development Authority for the purchase of the Lapeer County Abstract Building located at 194 W. Nepessing Street.
- \$12,000 increase to re-appropriate funds from the prior year for the City Hall Floor Covering Project.
- \$9,333 increase to provide funding for the part time position for the MSHDA Section 8 program.
- \$5,000 increase to provide funding for a Transfer to the Building Department Fund to eliminate the fund deficit.
- \$4,000 increase to provide for increased wages for services provided to the Housing Commission.
- \$975 increase to the Fire Department Budget for donations received for Fire Prevention.

Of the increases in the budget, the \$426,000 for funding final costs on the MESC Building and funding the purchase of the Lapeer County Abstract building is funded from the proceeds of the sale of the MESC Building. The \$4,000 increase in wages for services provided to the Housing Commission is funded from a reimbursement from the Housing Commission. Of the \$9,333 funding for the part time position for the MSHDA Section 8 program, \$4,660 is funded from a MSHDA grant and \$4,673 is funded from available fund balance. The remaining budget increases were funded from available fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Lapeer's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to \$27,616,080 (net of accumulated depreciation). This is an increase of \$329,315 over the prior year amount of \$27,286,765. This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Lapeer's investment in capital assets for the current fiscal year was 1.2 percent (a 1.0 percent increase for governmental activities and a 1.5 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction continued on the Downtown Improvement Project which included the installation of water main, storm sewer, resurfacing of Nepessing Street including curb and gutter, sidewalk improvements, lighting and landscaping. The city investment in these improvements this fiscal year amounted to \$34,619. The Downtown Gateway portion of the project consisted of three (3) entrance signs to the city's downtown at a cost of \$20,161 in this fiscal year.
- McCormick Street Resurfacing project was completed at a cost of \$9,215.
- M-24/Demille Intersection improvements at a cost of \$31,978.
- WalMart off site improvements were started during this fiscal year with cost incurred in the amount of \$6,690.

- Optimist Community Soccer Field project was started with cost in this fiscal year of \$39,083.
- Various water main projects were under construction and included the Adams Street watermain (\$177,772), Jefferson Street watermain (\$140,938), and Harrison Street watermain (\$8,906).
- Various sewer projects were under construction and included Jefferson Street sewer (\$72,362).
- M-24 sidewalk improvement project in the amount of \$52,817.

Debt

At year-end, the City of Lapeer's (excluding component units) total bonded debt outstanding was at \$7.2 million versus \$8.2 million last year – a decrease of \$923,324 or 11.3%- as shown in Table 3.

Table 3
Outstanding Debt at Year-End
(In Millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds (backed by the City)	\$ 5.4	\$5.5	\$0.0	\$0.0	\$ 5.4	\$ 5.5
Special assessment bonds (with city commitment)	\$ 1.4	\$1.9	\$0.0	\$0.0	\$ 1.4	\$ 1.9
Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 0.0	\$0.0	\$0.4	\$0.4	\$ 0.4	\$ 0.4
Totals	<u>\$ 6.8</u>	<u>\$7.4</u>	<u>\$0.4</u>	<u>\$0.4</u>	<u>\$ 7.2</u>	<u>\$ 7.8</u>

The 1995 Special Assessment bond originally issued in the amount of \$940,000 was paid in full on January 1, 2005. The 1995 General Obligation bond originally issued in the amount of \$110,000 was paid in full on January 1, 2005. The 1990 Michigan Transportation Bond originally issued in the amount of \$100,000 was paid in full on March 1, 2005. Additionally, the city entered into several Equipment Financing Contracts for the purchase of two front end loaders and a tractor loader (\$221,000) and purchase of the Lapeer County Abstract Building located at 194 W. Nepessing Street (\$152,000).

Regarding the component unit's debt, the Tax Increment Finance Authority has the 1998 Tax Increment Financing Revenue Refunding Bond with the outstanding balance of \$3,380,000. The balance at the beginning of the fiscal year was \$3,880,000 which results in debt reduction of \$500,000 or 12.9%. On the financial statements this is shown net of the unamortized discount of \$40,110. The Downtown Development Authority has agreed to pay a portion of the 2002 General Obligation Bond which was issued for the Downtown Improvement Project. Their share of this debt at the end of the fiscal year is \$157,627. The balance at the beginning of the fiscal year was \$177,966 which results in debt reduction of \$20,339 or 11.4%.

The City's general obligation bond rating continues to carry a Baa from Moody's Investor Services since 1993 while Standard & Poor's has upgraded the city's rating from a BBB+ to an A-. The City's other debt – principally, revenue bonds – carries a BBB- rating. The State limits the amount of general obligation debt that cities can issue to 10 percent of State Equalized Value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below this \$29.0 million state-imposed limit.

Other obligations include accrued vacation and sick leave. More detailed information about the City's long-term liabilities is presented in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Unemployment rate for the County of Lapeer is at 7.4 per cent which is an increase of 0.7 percent from the prior year unemployment rate of 6.7 per cent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the City of Lapeer's budget for Fiscal Year 2005-2006.

During the current fiscal year, the unreserved fund balance increased from \$1,290,120 to \$2,093,448, an increase of \$803,328 or 36.9%. In the prior year, the unreserved fund balance increased from \$942,187 to \$1,290,120, an increase of \$347,933 or 62.3%. The current year unreserved fund balance of \$2,093,448 is \$385,191 higher than the \$1,708,257 which was projected during the Fiscal Year 2005-2006 budget review. The City of Lapeer is anticipating utilizing \$534,613 of fund balance for the 2005-2006 fiscal year.

As part of the Fiscal Year 2005-2006 budget the City of Lapeer will return to the General Fund contributed capital from the Wastewater Fund (\$300,000), Water Fund (\$160,000), and Motor Pool Fund (\$60,000). Additionally, the city increased the millage rate from 8.7911 to 9.8000, an increase of 1.0089 mills or 11.5%. This is the first increase in the millage since 1989 when the millage was reduced from 8.8911 to 8.7911 where it remained until this budget year. In 1981 the city was levying 10 mills. The increase in the millage rate was allocated 50% to the Local Street Fund and 50% to reinstate the Contribution to the Capital Improvement Fund.

Requests for Information

This financial report is designed to provide a general overview of the City of Lapeer's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF LAPEER, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash	\$ 3,405,922.62	\$ 278,456.74	\$ 3,684,379.36	\$ 1,910,411.44
Investments	1,530,000.00	17,143.73	1,547,143.73	
Receivables				
Notes				278,026.05
Taxes	218,723.33		218,723.33	
Accounts	491,275.01	422,752.66	914,027.67	
Special assessments	910,313.84		910,313.84	
Deposits		43,565.26	43,565.26	
Prepaid expenses	97,775.72	21,242.56	119,018.28	
Due from				
Other funds	268,328.61	8,114.32	276,442.93	4,229.94
State	209,215.91		209,215.91	
Other governmental units	10,678.38		10,678.38	
Inventory	38,067.37	40,941.45	79,008.82	
Restricted assets				
Cash and investments		1,811,093.87	1,811,093.87	573,004.81
Bond discount		4,884.27	4,884.27	
Fixed assets (net of accumulated depreciation)	<u>18,367,083.04</u>	<u>9,248,996.50</u>	<u>27,616,079.54</u>	<u>5,097,942.48</u>
 TOTAL ASSETS	 \$ <u>25,547,383.83</u>	 \$ <u>11,897,191.36</u>	 \$ <u>37,444,575.19</u>	 \$ <u>7,863,614.72</u>

See accompanying notes to financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current liabilities				
Payables				
Accounts	\$ 278,981.38	\$ 249,721.73	\$ 528,703.11	\$
Payroll and payroll taxes	86,527.98	13,748.74	100,276.72	
Due to				
State	28,889.55		28,889.55	
Other units	145,380.39		145,380.39	
Other funds				247,763.48
Accrued interest	68,356.87		68,356.87	16,395.67
Deposits payable	55,354.75	7,550.00	62,904.75	5,163.00
Bonds and notes payable	1,141,204.24	73,155.04	1,214,359.28	555,338.98
Noncurrent liabilities				
Bonds and notes payable	5,341,850.32	327,269.25	5,669,119.57	2,942,178.13
Accrued sick and vacation pay	587,084.70		587,084.70	
TOTAL LIABILITIES	<u>7,733,630.18</u>	<u>671,444.76</u>	<u>8,405,074.94</u>	<u>3,766,839.26</u>
NET ASSETS				
Invested in capital assets, net of related debt	11,884,028.48	8,848,572.25	20,732,600.73	1,600,425.37
Restricted for				
Receivables	132,728.51		132,728.51	
Prepaid expenses	80,604.58	21,242.56	101,847.14	
Inventory	13,512.02	40,941.45	54,453.47	
Operation and maintenance		268,435.34	268,435.34	
Bond and interest redemption		46,367.71	46,367.71	
Replacement		1,754,593.87	1,754,593.87	
Improvements		25,000.00	25,000.00	
Unrestricted	5,702,880.06	220,593.42	5,923,473.48	2,496,350.09
TOTAL NET ASSETS	<u>17,813,753.65</u>	<u>11,225,746.60</u>	<u>29,039,500.25</u>	<u>4,096,775.46</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,547,383.83</u>	<u>\$ 11,897,191.36</u>	<u>\$ 37,444,575.19</u>	<u>\$ 7,863,614.72</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Primary Government			
Governmental Activities			
General government	\$ 1,380,662.34	\$ 1,267,403.99	\$
Public safety	2,578,082.21	234,024.12	59,871.01
Public works	936,240.91		
Community development and enrichment	642,323.44	55,575.36	147,705.00
Highways and streets	847,269.33		694,357.34
Culture and recreation	2,038,239.06	1,245,651.49	3,000.00
Other	228,162.21		
Interest on long-term debt	283,476.52		
Total Governmental Activities	<u>8,934,456.02</u>	<u>2,802,654.96</u>	<u>904,933.35</u>
Business-Type Activities			
Water	1,748,526.22	2,143,908.22	
Wastewater	1,920,900.80	2,223,750.32	
Auto parking	77,359.21	51,523.08	
Total Business-Type Activities	<u>3,746,786.23</u>	<u>4,419,181.62</u>	
Total Primary Government	<u>\$ 12,681,242.25</u>	<u>\$ 7,221,836.58</u>	<u>\$ 904,933.35</u>
Component Units			
Tax Increment Financing Authority	\$ 416,433.56	\$	\$
Brownfield Redevelopment	603.25		
Downtown Development Authority	116,462.62		
Local Development Financing Authority	45,153.24		
Economic Development Corporation	160.00		
Total Component Units	<u>\$ 578,812.67</u>	<u>\$</u>	<u>\$</u>
General Revenues			
Property taxes levied for general purposes			
Property taxes levied for debt service			
Income tax			
Miscellaneous			
Unrestricted investment earnings			
Gain on sale of capital assets			
Transfers			
Total General Revenues and Transfers			
Change in Net Assets			
Net Assets, July 1			
Net Assets, June 30			

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL	
\$	\$ (113,258.35)	\$	\$ (113,258.35)	\$
	(2,284,187.08)		(2,284,187.08)	
	(936,240.91)		(936,240.91)	
	(439,043.08)		(439,043.08)	
	(152,911.99)		(152,911.99)	
	(789,587.57)		(789,587.57)	
	(228,162.21)		(228,162.21)	
	(283,476.52)		(283,476.52)	
	(5,226,867.71)		(5,226,867.71)	
		395,382.00	395,382.00	
		302,849.52	302,849.52	
		(25,836.13)	(25,836.13)	
		672,395.39	672,395.39	
\$	(5,226,867.71)	672,395.39	(4,554,472.32)	
\$				(416,433.56)
				(603.25)
				(116,462.62)
				(45,153.24)
				(160.00)
\$				(578,812.67)
	2,220,012.42		2,220,012.42	1,057,014.07
	10,385.73		10,385.73	
	2,243,650.17		2,243,650.17	
	980,226.88		980,226.88	75,126.02
	303,714.07	45,129.27	348,843.34	30,029.34
	12,743.84	14,534.00	27,277.84	
	832,026.99	(552,270.50)	279,756.49	(259,417.51)
	6,602,760.10	(492,607.23)	6,110,152.87	902,751.92
	1,375,892.39	179,788.16	1,555,680.55	323,939.25
	16,437,861.26	11,045,958.44	27,483,819.70	3,772,836.21
\$	\$ 17,813,753.65	\$ 11,225,746.60	\$ 29,039,500.25	\$ 4,096,775.46

CITY OF LAPEER, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2005

ASSETS

	GENERAL	MAJOR STREET	PARKS AND RECREATION
ASSETS			
Cash	\$ 542,315.37	\$ 138,304.04	\$ 257,375.12
Investments	1,530,000.00		
Receivables			
Taxes	218,723.33		
Accounts	132,728.51	10,732.14	93,941.47
Special assessments			
Due from			
Other funds	98,413.94	199,623.02	3,209.26
State	108,910.00	78,025.53	
Other governmental units	10,678.38		
Inventory	13,512.02		
Prepaid expenses	80,604.58	510.83	10,448.41
TOTAL ASSETS	\$ 2,735,886.13	\$ 427,195.56	\$ 364,974.26

LIABILITIES AND FUND EQUITY

LIABILITIES

Payables			
Accounts	\$ 113,766.88	\$ 8,352.83	\$ 60,454.10
Payroll and payroll taxes	68,239.41	1,203.02	12,851.79
Due to			
State	28,889.55		
Other units	145,380.39		
Other funds	3,961.59		
Deferred revenue			
Deposits payable	55,354.75		
TOTAL LIABILITIES	415,592.57	9,555.85	73,305.89

FUND BALANCE

Reserved for receivables	132,728.51		
Reserved for cemetery perpetual care			
Reserved for prepaid expenses	80,604.58		
Reserved for inventory	13,512.02		
Reserved for debt service			
Unreserved, reported in			
General fund	2,093,448.45		
Special revenue funds		417,639.71	291,668.37
Permanent fund			
Capital projects funds			
TOTAL FUND BALANCES	2,320,293.56	417,639.71	291,668.37
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,735,886.13	\$ 427,195.56	\$ 364,974.26

1998 SPECIAL ASSESSMENT BONDS	2002 SPECIAL ASSESSMENT BONDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 298,312.75	\$ 113,052.09	\$ 1,845,461.17	\$ 3,194,820.54
			1,530,000.00
			218,723.33
		226,814.29	464,216.41
529,100.18	162,444.05	218,769.61	910,313.84
	9,024.00	67,381.47	377,651.69
		22,280.38	209,215.91
			10,678.38
			13,512.02
		3,006.67	94,570.49
<u>\$ 827,412.93</u>	<u>\$ 284,520.14</u>	<u>\$ 2,383,713.59</u>	<u>\$ 7,023,702.61</u>
\$	\$	\$ 71,867.28	\$ 254,441.09
		2,509.82	84,804.04
			28,889.55
			145,380.39
		84,520.31	88,481.90
529,100.18	162,444.05	227,036.81	918,581.04
			55,354.75
<u>529,100.18</u>	<u>162,444.05</u>	<u>385,934.22</u>	<u>1,575,932.76</u>
			132,728.51
		151,171.27	151,171.27
			80,604.58
			13,512.02
298,312.75	122,076.09	617,304.21	1,037,693.05
			2,093,448.45
		456,168.52	1,165,476.60
		340.99	340.99
		772,794.38	772,794.38
<u>298,312.75</u>	<u>122,076.09</u>	<u>1,997,779.37</u>	<u>5,447,769.85</u>
<u>\$ 827,412.93</u>	<u>\$ 284,520.14</u>	<u>\$ 2,383,713.59</u>	<u>\$ 7,023,702.61</u>

CITY OF LAPEER, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances-governmental funds		\$	5,447,769.85
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,221,258.89 and the accumulated depreciation is \$5,425,030.67			17,796,228.22
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.			550,625.17
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long-term liabilities at year-end consist of:			
Bonds payable	\$	5,917,372.29	
Accrued interest		68,356.87	
Contracts payable		326,636.77	
Compensated absences		<u>587,084.70</u>	(6,899,450.63)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds			<u>918,581.04</u>
TOTAL NET ASSETS-GOVERNMENTAL ACTIVITIES		\$	<u><u>17,813,753.65</u></u>

See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL	MAJOR STREET	PARKS AND RECREATION
REVENUES			
Taxes and special assessments	\$ 4,463,662.59	\$	\$
Licenses and permits	7,721.50		
Intergovernmental	929,525.24	556,624.98	3,000.00
Charges for services	668,506.20		1,245,651.49
Fines and forfeits	42,542.20		
Interest and rentals	72,148.77	883.43	56,324.23
Other revenues	<u>529,851.09</u>	<u>10,564.50</u>	<u>106,532.50</u>
TOTAL REVENUES	<u>6,713,957.59</u>	<u>568,072.91</u>	<u>1,411,508.22</u>
EXPENDITURES			
General government	1,306,095.10		
Public safety	2,378,061.34		
Public works	729,898.80		
Culture and recreation			2,012,935.94
Community development and enrichment	394,383.18		
Debt service			
Principal retirement			
Interest and fiscal charges			
Other	56,647.86		
Highways and streets		664,572.49	
Capital outlay			
TOTAL EXPENDITURES	<u>4,865,086.28</u>	<u>664,572.49</u>	<u>2,012,935.94</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,848,871.31</u>	<u>(96,499.58)</u>	<u>(601,427.72)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of bond issues and loans			
Operating transfers in	892,280.63	417,376.17	854,890.04
Operating transfers out	<u>(1,951,707.72)</u>	<u>(477,733.00)</u>	<u>(822.00)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,059,427.09)</u>	<u>(60,356.83)</u>	<u>854,068.04</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	789,444.22	(156,856.41)	252,640.32
FUND BALANCE, JULY 1	<u>1,530,849.34</u>	<u>574,496.12</u>	<u>39,028.05</u>
FUND BALANCE, JUNE 30	\$ <u><u>2,320,293.56</u></u>	\$ <u><u>417,639.71</u></u>	\$ <u><u>291,668.37</u></u>

See accompanying notes to financial statements.

1998 SPECIAL ASSESSMENT BONDS	2002 SPECIAL ASSESSMENT BONDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 178,000.00	\$ 48,951.23	\$ 129,463.05	\$ 4,820,076.87
			7,721.50
		217,281.38	1,706,431.60
		54,475.36	1,968,633.05
			42,542.20
44,565.17	13,903.92	108,736.53	296,562.05
29.76	744.30	537,452.62	1,185,174.77
<u>222,594.93</u>	<u>63,599.45</u>	<u>1,047,408.94</u>	<u>10,027,142.04</u>
			1,306,095.10
		17,306.93	2,395,368.27
			729,898.80
			2,012,935.94
		250,208.17	644,591.35
190,000.00	45,000.00	948,328.54	1,183,328.54
31,062.00	13,860.75	258,200.25	303,123.00
		140,566.73	197,214.59
		213,686.08	878,258.57
		695,848.81	695,848.81
<u>221,062.00</u>	<u>58,860.75</u>	<u>2,524,145.51</u>	<u>10,346,662.97</u>
<u>1,532.93</u>	<u>4,738.70</u>	<u>(1,476,736.57)</u>	<u>(319,520.93)</u>
		183,293.60	183,293.60
		1,821,774.25	3,986,321.09
		(623,911.74)	(3,054,174.46)
		<u>1,381,156.11</u>	<u>1,115,440.23</u>
1,532.93	4,738.70	(95,580.46)	795,919.30
296,779.82	117,337.39	2,093,359.83	4,651,850.55
<u>\$ 298,312.75</u>	<u>\$ 122,076.09</u>	<u>\$ 1,997,779.37</u>	<u>\$ 5,447,769.85</u>

CITY OF LAPEER, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Net changes in fund balances-total governmental funds	\$	795,919.30
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets		742,136.97
Change in sale of assets		(199,429.99)
Less: current year depreciation		(516,094.26)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(348,147.08)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Bond and loan proceeds		(183,293.60)
Accrued interest		28,812.36
Principal payments		1,162,989.56

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in long-term compensated absences		(30,947.62)
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Internal service funds are used by management to charge the costs of certain activities to individual funds.

The net (expense) of the internal service funds is reported with governmental activities.

		(76,053.25)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	1,375,892.39
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See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	AUTO PARKING	WASTE WATER TREATMENT PLANT
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,297.42	\$ 137,129.19
Investments		
Accounts receivable	451.41	220,652.16
Deposits		900.00
Bond discount		4,884.27
Inventory		
Due from other funds		4,007.65
Prepaid expenses	927.06	13,446.77
TOTAL CURRENT ASSETS	<u>13,675.89</u>	<u>381,020.04</u>
RESTRICTED ASSETS		
Cash and investments		<u>1,458,237.60</u>
PROPERTY, PLANT AND EQUIPMENT		
Construction in progress		118,174.97
Land and improvements	849,645.23	436,664.67
Buildings and structures		11,809,215.32
Utility mains		840,188.23
Infrastructure		
Vehicles and equipment	79,672.23	1,763,423.80
	<u>929,317.46</u>	<u>14,967,666.99</u>
Less: accumulated depreciation	<u>557,561.75</u>	<u>8,092,248.46</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>371,755.71</u>	<u>6,875,418.53</u>
TOTAL ASSETS	\$ <u>385,431.60</u>	\$ <u>8,714,676.17</u>

See accompanying notes to financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
WATER SUPPLY	TOTAL		INTERNAL SERVICE FUNDS	
	2005	2004	2005	2004
\$ 129,030.13	\$ 278,456.74	\$ 315,939.97	\$ 211,102.08	\$ 126,001.10
17,143.73	17,143.73			300,000.00
201,649.09	422,752.66	381,082.35	27,058.60	169.25
42,665.26	43,565.26	43,784.34		
	4,884.27	5,604.27		
40,941.45	40,941.45	45,213.16	24,555.35	23,669.85
4,106.67	8,114.32	5,138.27		
6,868.73	21,242.56	37,581.36	3,205.23	12,163.95
<u>442,405.06</u>	<u>837,100.99</u>	<u>834,343.72</u>	<u>265,921.26</u>	<u>462,004.15</u>
<u>352,856.27</u>	<u>1,811,093.87</u>	<u>1,734,911.46</u>		
750,706.33	868,881.30	434,396.39		
67,692.16	1,354,002.06	1,354,002.06	22,328.64	22,328.64
209,817.00	12,019,032.32	12,019,032.32		
4,665,150.14	5,505,338.37	5,505,338.37		
216,793.39	2,059,889.42	2,056,024.67	83,498.98	83,498.98
<u>5,910,159.02</u>	<u>21,807,143.47</u>	<u>21,368,793.81</u>	<u>1,579,617.84</u>	<u>1,459,278.59</u>
3,908,336.76	12,558,146.97	12,259,364.76	1,685,445.46	1,565,106.21
<u>2,001,822.26</u>	<u>9,248,996.50</u>	<u>9,109,429.05</u>	<u>1,114,590.64</u>	<u>1,157,385.94</u>
			570,854.82	407,720.27
<u>\$ 2,797,083.59</u>	<u>\$ 11,897,191.36</u>	<u>\$ 11,678,684.23</u>	<u>\$ 836,776.08</u>	<u>\$ 869,724.42</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS - Concluded
JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR JUNE 30, 2004

	ENTERPRISE FUNDS	
	AUTO PARKING	WASTE WATER TREATMENT PLANT
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 100.08	\$ 62,178.55
Due to other funds		
Accrued payroll and related items	78.34	8,742.01
Performance bonds payable		
Notes payable		8,155.04
Bonds payable		30,000.00
TOTAL CURRENT LIABILITIES	<u>178.42</u>	<u>109,075.60</u>
LONG-TERM LIABILITIES		
Notes payable		77,269.25
Bonds payable		250,000.00
TOTAL LONG-TERM LIABILITIES		<u>327,269.25</u>
TOTAL LIABILITIES	<u>178.42</u>	<u>436,344.85</u>
NET ASSETS AND CONTRIBUTED CAPITAL		
CONTRIBUTED CAPITAL		
Municipality	329,999.93	2,999,999.84
Local		
Federal		3,259,368.08
TOTAL CONTRIBUTED CAPITAL	<u>329,999.93</u>	<u>6,259,367.92</u>
NET ASSETS		
Invested in capital assets, net of related debt	371,755.71	6,509,994.28
Restricted for		
Prepaid expenses	927.06	13,446.77
Inventory		
Operation and maintenance		128,525.02
Bond and interest redemption		36,604.17
Replacement		1,405,237.60
Improvements		25,000.00
Unrestricted	<u>(317,429.52)</u>	<u>(6,099,844.44)</u>
TOTAL NET ASSETS	<u>55,253.25</u>	<u>2,018,963.40</u>
TOTAL NET ASSETS AND CONTRIBUTED CAPITAL	<u>385,253.18</u>	<u>8,278,331.32</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 385,431.60</u>	<u>\$ 8,714,676.17</u>

See accompanying notes to financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
WATER SUPPLY	TOTAL		INTERNAL SERVICE FUNDS	
	2005	2004	2005	2004
\$ 187,443.10	\$ 249,721.73	\$ 203,381.96	\$ 24,540.29	\$ 19,214.47
			20,841.18	7,971.08
4,928.39	13,748.74	49,043.83	1,723.94	5,203.14
7,550.00	7,550.00	5,300.00		
	8,155.04		67,328.45	57,036.00
35,000.00	65,000.00	60,000.00		
<u>234,921.49</u>	<u>344,175.51</u>	<u>317,725.79</u>	<u>114,433.86</u>	<u>89,424.69</u>
	77,269.25		171,717.05	153,621.31
	<u>250,000.00</u>	<u>315,000.00</u>		
	327,269.25	315,000.00	171,717.05	153,621.31
<u>234,921.49</u>	<u>671,444.76</u>	<u>632,725.79</u>	<u>286,150.91</u>	<u>243,046.00</u>
	3,329,999.77	3,819,296.49		
	<u>3,259,368.08</u>	<u>3,505,674.40</u>	100,000.00	164,690.00
<u>0.00</u>	<u>6,589,367.85</u>	<u>7,324,970.89</u>	<u>100,000.00</u>	<u>164,690.00</u>
1,966,822.26	8,848,572.25	8,745,223.97	331,809.32	201,934.76
6,868.73	21,242.56	37,581.36	3,205.23	
40,941.45	40,941.45	45,213.16	24,555.35	23,669.85
139,910.32	268,435.34	260,235.21		
9,763.54	46,367.71	52,282.29		
349,356.27	1,754,593.87	1,672,411.46		
	25,000.00	25,000.00		
48,499.53	(6,368,774.43)	(7,116,959.90)	91,055.27	236,383.81
<u>2,562,162.10</u>	<u>4,636,378.75</u>	<u>3,720,987.55</u>	<u>450,625.17</u>	<u>461,988.42</u>
2,562,162.10	11,225,746.60	11,045,958.44	550,625.17	626,678.42
<u>\$ 2,797,083.59</u>	<u>\$ 11,897,191.36</u>	<u>\$ 11,678,684.23</u>	<u>\$ 836,776.08</u>	<u>\$ 869,724.42</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	AUTO PARKING	WASTE WATER TREATMENT PLANT
OPERATING REVENUES		
Charges for services	\$ 51,523.08	\$ 2,223,750.32
Miscellaneous		
Equipment rentals		
TOTAL OPERATING REVENUES	51,523.08	2,223,750.32
OPERATING EXPENSES		
Salaries and wages	22,571.05	472,547.57
Fringe benefits	13,800.99	243,653.52
Office supplies	370.17	6,473.95
Operating supplies	1,535.00	92,594.61
Administrative fees	15,340.00	132,467.00
Professional and contractual services	1,408.00	118,685.62
Printing	904.96	1,246.36
Insurance and bonds	1,192.89	46,482.00
Public utilities		122,871.82
Repairs and maintenance	4,866.21	44,550.34
Rentals	11,489.72	46,503.78
Miscellaneous	32.15	6,908.15
Property taxes		64,864.00
Depreciation	3,848.07	356,162.04
Capital outlay		140,799.94
Conferences		1,651.55
TOTAL OPERATING EXPENSES	77,359.21	1,898,462.25
OPERATING INCOME (LOSS)	(25,836.13)	325,288.07
NONOPERATING REVENUES (EXPENSES)		
Interest earned	627.97	33,023.05
Gain on sale of fixed assets		14,534.00
Interest expense		(22,438.55)
TOTAL NONOPERATING REVENUES (EXPENSES)	627.97	25,118.50

See accompanying notes to financial statements.

BUSINESS-TYPE ACTIVITIES
ENTERPRISE FUNDS

GOVERNMENTAL ACTIVITIES

WATER SUPPLY			INTERNAL SERVICE FUNDS		
	2005	TOTAL 2004	2005	2004	
\$ 2,138,708.22	\$ 4,413,981.62	\$ 4,483,468.45			\$
5,200.00	5,200.00	3,819.52			
			665,707.57	580,791.20	
<u>2,143,908.22</u>	<u>4,419,181.62</u>	<u>4,487,287.97</u>	<u>665,707.57</u>	<u>580,791.20</u>	
295,107.63	790,226.25	801,558.53	90,499.00	107,339.95	
123,716.78	381,171.29	342,785.63	48,369.83	41,945.55	
6,810.37	13,654.49	22,986.76	1,138.25	1,034.89	
913,957.11	1,008,086.72	1,105,161.30	142,805.42	120,680.72	
140,966.00	288,773.00	269,005.20			
50,205.97	170,299.59	121,639.59	6,344.31	17,212.74	
1,498.03	3,649.35	4,064.09			
13,630.00	61,304.89	69,762.44	43,524.92	37,057.44	
12,161.14	135,032.96	131,058.93	48,310.93	43,609.64	
6,100.71	55,517.26	67,050.14	120,961.83	102,419.87	
76,820.80	134,814.30	116,421.67	2,420.58	690.81	
5,381.90	12,322.20	15,436.83	1,682.96	1,746.09	
22,827.00	87,691.00	86,292.00			
66,173.35	426,183.46	424,082.29	102,175.89	101,395.68	
8,906.43	149,706.37	30,550.23	44,198.10	50,268.09	
834.00	2,485.55	3,337.53			
<u>1,745,097.22</u>	<u>3,720,918.68</u>	<u>3,611,193.16</u>	<u>652,432.02</u>	<u>625,401.47</u>	
<u>398,811.00</u>	<u>698,262.94</u>	<u>876,094.81</u>	<u>13,275.55</u>	<u>(44,610.27)</u>	
11,478.25	45,129.27	16,947.72	7,212.88	3,866.15	
	14,534.00		12,743.84	2,291.73	
<u>(3,429.00)</u>	<u>(25,867.55)</u>	<u>(27,359.26)</u>	<u>(9,165.88)</u>	<u>(7,739.41)</u>	
<u>8,049.25</u>	<u>33,795.72</u>	<u>(10,411.54)</u>	<u>10,790.84</u>	<u>(1,581.53)</u>	

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - Concluded
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	AUTO PARKING	WASTE WATER TREATMENT PLANT
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ (25,208.16)	\$ 350,406.57
OPERATING TRANSFERS		
Operating transfers in		19.23
Operating transfers out	<u>(6,551.00)</u>	<u>(346,211.00)</u>
NET INCOME (LOSS)	(31,759.16)	4,214.80
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITIONS AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL		246,306.32
PRIOR PERIOD ADJUSTMENT		
REDUCTION OF CONTRIBUTED CAPITAL	6,551.00	318,572.00
NET ASSETS, JULY 1	<u>80,461.41</u>	<u>1,449,870.28</u>
NET ASSETS, JUNE 30	<u>\$ 55,253.25</u>	<u>\$ 2,018,963.40</u>

See accompanying notes to financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
WATER SUPPLY	TOTAL		INTERNAL SERVICE FUNDS	
	2005	2004	2005	2004
\$ 406,860.25	\$ 732,058.66	\$ 865,683.27	\$ 24,066.39	\$ (46,191.80)
943.27	962.50	1,247.57	476.36	
(200,471.00)	(553,233.00)	(58,639.44)	(100,596.00)	(35,353.94)
207,332.52	179,788.16	808,291.40	(76,053.25)	(81,545.74)
	246,306.32	246,306.32		(67,308.00)
164,173.72	<i>468,291.72</i>		64,690.00	
2,190,655.86	3,720,987.55	2,666,389.83	461,988.42	610,842.16
\$ <u>2,562,162.10</u>	\$ <u>4,636,378.75</u>	\$ <u>3,720,987.55</u>	\$ <u>450,625.17</u>	\$ <u>461,988.42</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	AUTO PARKING	WASTEWATER TREATMENT PLANT
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 51,132.12	\$ 2,186,243.27
Cash received from interfund charges		
Cash payment for goods and services	(47,572.87)	(839,046.17)
Cash payment for employees	(26,261.27)	(693,204.39)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(22,702.02)	653,992.71
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers in		19.23
Operating transfers out	(6,551.00)	(346,211.00)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(6,551.00)	(346,191.77)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment for capital acquisitions		(212,398.79)
Principal payments		60,424.25
Sale of capital assets		14,534.00
(Increase) decrease in investments		(165,373.47)
Interest and fiscal charges paid		(22,438.55)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES		(325,252.56)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	627.97	33,023.05
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,625.05)	15,571.43
PRIOR PERIOD ADJUSTMENT		
CASH AND CASH EQUIVALENTS, JULY 1	40,922.47	121,557.76
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 12,297.42	\$ 137,129.19

See accompanying notes to financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
WATER SUPPLY	TOTAL		INTERNAL SERVICE FUNDS	
	2005	2004	2005	2004
\$ 2,138,467.99	\$ 4,375,843.38	\$ 4,468,261.05	\$ 646,929.45	\$ 588,593.03
(1,224,510.59)	(2,111,129.63)	(2,753,199.78)	(396,708.59)	(683,765.24)
<u>(430,603.74)</u>	<u>(1,150,069.40)</u>	<u>(1,117,719.12)</u>	<u>(138,868.83)</u>	<u>(148,233.22)</u>
483,353.66	1,114,644.35	597,342.15	111,352.03	(243,405.43)
943.27	962.50	1,247.57	476.36	
<u>(200,471.00)</u>	<u>(553,233.00)</u>	<u>(58,639.44)</u>	<u>(100,596.00)</u>	<u>(35,353.94)</u>
(199,527.73)	(552,270.50)	(57,391.87)	(100,119.64)	(35,353.94)
(353,352.12)	(565,750.91)	(491,087.58)	(276,302.60)	(58,743.32)
(35,000.00)	25,424.25	(55,000.00)	28,388.19	94,857.31
	14,534.00		23,736.00	9,232.33
72,047.33	(93,326.14)		300,000.00	
<u>(3,429.00)</u>	<u>(25,867.55)</u>	<u>(27,359.26)</u>	<u>(9,165.88)</u>	<u>(7,739.41)</u>
(319,733.79)	(644,986.35)	(573,446.84)	66,655.71	37,606.91
11,478.25	45,129.27	16,947.72	7,212.88	3,866.15
(24,429.61)	(37,483.23)	(16,548.84)	85,100.98	(237,286.31)
				(67,308.00)
153,459.74	315,939.97	332,488.81	126,001.10	430,595.41
\$ <u>129,030.13</u>	\$ <u>278,456.74</u>	\$ <u>315,939.97</u>	\$ <u>211,102.08</u>	\$ <u>126,001.10</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF CASH FLOWS - Concluded
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	AUTO PARKING	WASTEWATER TREATMENT PLANT
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ <u>(25,836.13)</u>	\$ <u>325,288.11</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,848.07	356,162.04
(Increase) decrease in restricted cash and investments		
(Increase) decrease in inventory		
(Increase) decrease in accounts receivable	(390.96)	(35,741.34)
(Increase) decrease in bond discounts		720.00
(Increase) decrease in prepaid expenses	141.20	10,745.82
(Increase) decrease in due from other funds		(1,765.75)
(Increase) decrease in deposits		
Increase (decrease) in accounts payable	54.86	21,580.53
Increase (decrease) in due to other funds		
Increase (decrease) in accrued expenses	(519.06)	(22,996.70)
Increase (decrease) in performance bonds payable		
Total adjustments	<u>3,134.11</u>	<u>328,704.60</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ <u><u>(22,702.02)</u></u>	\$ <u><u>653,992.71</u></u>

See accompanying notes to financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
WATER SUPPLY	TOTAL		INTERNAL SERVICE FUNDS	
	2005	2004	2005	2004
\$ <u>398,811.00</u>	\$ <u>698,262.98</u>	\$ <u>876,094.81</u>	\$ <u>13,275.55</u>	\$ <u>(44,610.27)</u>
66,173.35	426,183.46	424,082.29	102,175.89	101,395.68
		(607,109.99)		(300,000.00)
4,271.71	4,271.71	(6,987.37)	(885.50)	(5,134.35)
(5,538.01)	(41,670.31)	(19,026.92)	(26,889.35)	(169.25)
	720.00	720.00		
5,451.78	16,338.80	(389.39)	8,958.72	(1,905.42)
(1,210.30)	(2,976.05)	5,203.31		
219.08	219.08	663.26		
24,704.38	46,339.77	(85,032.05)	5,325.82	(2,005.18)
(11,779.33)	(35,295.09)	6,624.20	9,390.90	7,971.08
				1,052.28
<u>2,250.00</u>	<u>2,250.00</u>	<u>2,500.00</u>		
<u>84,542.66</u>	<u>416,381.37</u>	<u>(278,752.66)</u>	<u>98,076.48</u>	<u>(198,795.16)</u>
\$ <u><u>483,353.66</u></u>	\$ <u><u>1,114,644.35</u></u>	\$ <u><u>597,342.15</u></u>	\$ <u><u>111,352.03</u></u>	\$ <u><u>(243,405.43)</u></u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	PAYROLL CLEARING	TAX COLLECTION
ASSETS		
Cash	\$ 79,500.26	\$ 4,085.28
Accounts receivable		<u>32,909.39</u>
TOTAL ASSETS	<u>\$ 79,500.26</u>	<u>\$ 36,994.67</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 79,500.26	\$
Undistributed taxes		4,085.28
Due to other funds		<u>32,909.39</u>
TOTAL LIABILITIES	<u>\$ 79,500.26</u>	<u>\$ 36,994.67</u>

See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	JULY 1, 2004	ADDITIONS	DEDUCTIONS	JUNE 30, 2005
TAX COLLECTION FUND				
ASSETS				
Cash	\$ 2,629.99	\$ 2,570,597.76	\$ 2,569,142.47	\$ 4,085.28
Property tax receivable	<u>35,813.67</u>	<u>8,801,113.58</u>	<u>8,804,017.86</u>	<u>32,909.39</u>
TOTAL ASSETS	<u>\$ 38,443.66</u>	<u>\$ 11,371,711.34</u>	<u>\$ 11,373,160.33</u>	<u>\$ 36,994.67</u>
LIABILITIES				
Accounts payable	\$ 30.00	\$ 6,767,498.84	\$ 6,767,528.84	\$
Undistributed taxes	2,599.99	6,885,595.07	6,884,109.78	4,085.28
Due to other funds	<u>35,813.67</u>	<u>3,973,405.14</u>	<u>3,976,309.42</u>	<u>32,909.39</u>
TOTAL LIABILITIES	<u>\$ 38,443.66</u>	<u>\$ 17,626,499.05</u>	<u>\$ 17,627,948.04</u>	<u>\$ 36,994.67</u>
PAYROLL CLEARING FUND				
ASSETS				
Cash	\$ <u>42,249.14</u>	\$ <u>231,759.74</u>	\$ <u>194,508.62</u>	\$ <u>79,500.26</u>
LIABILITIES				
Accounts payable	\$ <u>42,249.14</u>	\$ <u>3,004,041.16</u>	\$ <u>2,966,790.04</u>	\$ <u>79,500.26</u>
TOTAL				
ASSETS				
Cash	\$ 44,879.13	\$ 2,802,357.50	\$ 2,763,651.09	\$ 83,585.54
Property tax receivable	<u>35,813.67</u>	<u>8,801,113.58</u>	<u>8,804,017.86</u>	<u>32,909.39</u>
TOTAL ASSETS	<u>\$ 80,692.80</u>	<u>\$ 11,603,471.08</u>	<u>\$ 11,567,668.95</u>	<u>\$ 116,494.93</u>
LIABILITIES				
Accounts payable	\$ 42,279.14	\$ 9,771,540.00	\$ 9,734,318.88	\$ 79,500.26
Undistributed taxes	2,599.99	6,885,595.07	6,884,109.78	4,085.28
Due to other funds	<u>35,813.67</u>	<u>3,973,405.14</u>	<u>3,976,309.42</u>	<u>32,909.39</u>
TOTAL LIABILITIES	<u>\$ 80,692.80</u>	<u>\$ 20,630,540.21</u>	<u>\$ 20,594,738.08</u>	<u>\$ 116,494.93</u>

See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	SPECIAL REVENUE	DEBT SERVICE
ASSETS		
Cash	\$ 416,643.83	\$ 603,167.63
Receivables		
Accounts	95,681.11	
Special assessments		218,769.61
Due from		
Other funds	51,987.03	14,136.58
State	22,280.38	
Prepaid expenses	3,006.67	
TOTAL ASSETS	<u>\$ 589,599.02</u>	<u>\$ 836,073.82</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Payables		
Accounts	\$ 58,578.04	\$
Payroll and payroll taxes	2,509.82	
Due to other funds	72,342.64	
Deferred revenue		218,769.61
TOTAL LIABILITIES	<u>133,430.50</u>	<u>218,769.61</u>
FUND BALANCE		
Reserved for cemetery perpetual care		
Reserved for debt service		617,304.21
Unreserved	456,168.52	
TOTAL FUND BALANCE	<u>456,168.52</u>	<u>617,304.21</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 589,599.02</u>	<u>\$ 836,073.82</u>

See accompanying notes to financial statements.

CAPITAL PROJECTS	PERMANENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$ 674,317.45	\$ 151,332.26	\$ 1,845,461.17
130,953.18	180.00	226,814.29
1,257.86		218,769.61
<u>806,528.49</u>	<u>151,512.26</u>	<u>67,381.47</u>
		<u>22,280.38</u>
		<u>3,006.67</u>
		<u>\$ 2,383,713.59</u>
\$ 13,289.24	\$	\$ 71,867.28
12,177.67		2,509.82
<u>8,267.20</u>		84,520.31
<u>33,734.11</u>		<u>227,036.81</u>
		<u>385,934.22</u>
	151,171.27	151,171.27
<u>772,794.38</u>	<u>340.99</u>	<u>617,304.21</u>
<u>772,794.38</u>	<u>151,512.26</u>	<u>1,229,303.89</u>
		<u>1,997,779.37</u>
<u>\$ 806,528.49</u>	<u>\$ 151,512.26</u>	<u>\$ 2,383,713.59</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE	DEBT SERVICE
REVENUES		
Taxes and special assessments	\$	\$ 129,463.05
Intergovernmental	217,281.38	
Charges for services	54,475.36	
Interest and rentals	59,966.28	31,773.53
Other revenues	49,715.02	1,283.61
TOTAL REVENUES	<u>381,438.04</u>	<u>162,520.19</u>
EXPENDITURES		
Public safety	17,306.93	
Community development and enrichment	250,208.17	
Debt service		
Principal retirement		948,328.54
Interest and fiscal charges		258,200.25
Other	126,500.25	
Highways and streets	213,686.08	
Capital outlay		
TOTAL EXPENDITURES	<u>607,701.43</u>	<u>1,206,528.79</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(226,263.39)</u>	<u>(1,044,008.60)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds of bond issues and loans		
Operating transfers in	343,256.41	947,822.94
Operating transfers out	(97,265.13)	(23,331.44)
TOTAL OTHER FINANCING SOURCES (USES)	<u>245,991.28</u>	<u>924,491.50</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	19,727.89	(119,517.10)
FUND BALANCE, JULY 1	<u>436,440.63</u>	<u>736,821.31</u>
FUND BALANCE, JUNE 30	<u>\$ 456,168.52</u>	<u>\$ 617,304.21</u>

See accompanying notes to financial statements.

CAPITAL PROJECTS	PERMANENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$	\$	\$
		129,463.05
		217,281.38
		54,475.36
13,358.25	3,638.47	108,736.53
485,513.99	940.00	537,452.62
<u>498,872.24</u>	<u>4,578.47</u>	<u>1,047,408.94</u>
		17,306.93
		250,208.17
		948,328.54
14,066.48		258,200.25
		140,566.73
695,848.81		213,686.08
<u>709,915.29</u>		<u>695,848.81</u>
		<u>2,524,145.51</u>
(211,043.05)	4,578.47	(1,476,736.57)
183,293.60		183,293.60
530,694.90		1,821,774.25
(499,676.70)	(3,638.47)	(623,911.74)
<u>214,311.80</u>	<u>(3,638.47)</u>	<u>1,381,156.11</u>
3,268.75	940.00	(95,580.46)
769,525.63	150,572.26	2,093,359.83
\$ <u>772,794.38</u>	\$ <u>151,512.26</u>	\$ <u>1,997,779.37</u>

CITY OF LAPEER, MICHIGAN

STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2005

	DOWNTOWN DEVELOPMENT AUTHORITY	BROWNFIELD REDEVELOPMENT	TAX INCREMENT FINANCE AUTHORITY
ASSETS			
Cash	\$ 167,730.72	\$ 1,461.90	\$ 1,219,067.49
Note receivable			278,026.05
Due from other funds	1,580.14		2,250.96
Capital assets (net of accumulated depreciation)	232,379.39		4,658,789.20
RESTRICTED ASSETS			
Cash			573,004.81
TOTAL ASSETS	<u>\$ 401,690.25</u>	<u>\$ 1,461.90</u>	<u>\$ 6,731,138.51</u>
LIABILITIES			
Due to other funds	\$ 2,161.50	\$	\$ 245,601.98
Security deposits payable			5,163.00
Accrued interest	1,127.00		15,268.67
Long-term liabilities			
Portion due within one year	20,338.98		535,000.00
Portion due after one year	<u>137,288.13</u>		<u>2,804,890.00</u>
TOTAL LIABILITIES	<u>160,915.61</u>		<u>3,605,923.65</u>
FUND BALANCE			
Invested in capital assets, net of related debt	74,752.28		1,318,899.20
Unreserved	<u>166,022.36</u>	<u>1,461.90</u>	<u>1,806,315.66</u>
TOTAL FUND BALANCE	<u>240,774.64</u>	<u>1,461.90</u>	<u>3,125,214.86</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 401,690.25</u>	<u>\$ 1,461.90</u>	<u>\$ 6,731,138.51</u>

See accompanying notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION (12-31-04)	LOCAL DEVELOPMENT AUTHORITY	TOTAL
\$ 7,541.58	\$ 514,609.75	\$ 1,910,411.44
	398.84	278,026.05
	206,773.89	4,229.94
		5,097,942.48
		573,004.81
\$ <u>7,541.58</u>	\$ <u>721,782.48</u>	\$ <u>7,863,614.72</u>
\$	\$	\$ 247,763.48
		5,163.00
		16,395.67
		555,338.98
		2,942,178.13
		3,766,839.26
	206,773.89	1,600,425.37
<u>7,541.58</u>	<u>515,008.59</u>	<u>2,496,350.09</u>
<u>7,541.58</u>	<u>721,782.48</u>	<u>4,096,775.46</u>
\$ <u>7,541.58</u>	\$ <u>721,782.48</u>	\$ <u>7,863,614.72</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Component Units			
Tax Increment Financing Authority	\$ 416,433.56	\$	\$
Brownfield Redevelopment	603.25		
Downtown Development Authority	116,462.62		
Local Development Financing Authority	45,153.24		
Economic Development Corporation	160.00		
Total Component Units	<u>\$ 578,812.67</u>	<u>\$</u>	<u>\$</u>
General Revenues			
Property taxes			
Miscellaneous			
Unrestricted investment earnings			
Transfers			
Total General Revenues and Transfers			
Change in Net assets			
NET ASSETS, JULY 1			
NET ASSETS, JUNE 30			

See accompanying notes to financial statements.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

TAX INCREMENT FINANCE AUTHORITY	BROWNFIELD REDEVELOPMENT	DOWNTOWN DEVELOPMENT AUTHORITY	LOCAL DEVELOPMENT FINANCE AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION	TOTAL
\$ (416,433.56)	\$ (603.25)	\$ (116,462.62)	\$ (45,153.24)	\$ (160.00)	\$ (416,433.56)
					(603.25)
					(116,462.62)
					(45,153.24)
					(160.00)
<u>(416,433.56)</u>	<u>(603.25)</u>	<u>(116,462.62)</u>	<u>(45,153.24)</u>	<u>(160.00)</u>	<u>(578,812.67)</u>
979,323.23	1,249.31	32,854.88	43,586.65		1,057,014.07
57,626.02		15,000.00		2,500.00	75,126.02
19,854.83		3,080.27	7,076.84	17.40	30,029.34
<u>(448,393.09)</u>	<u>1,417.35</u>	<u>98,102.56</u>	<u>89,455.67</u>		<u>(259,417.51)</u>
<u>608,410.99</u>	<u>2,666.66</u>	<u>149,037.71</u>	<u>140,119.16</u>	<u>2,517.40</u>	<u>902,751.92</u>
191,977.43	2,063.41	32,575.09	94,965.92	2,357.40	323,939.25
<u>2,933,237.43</u>	<u>(601.51)</u>	<u>208,199.55</u>	<u>626,816.56</u>	<u>5,184.18</u>	<u>3,772,836.21</u>
<u>\$ 3,125,214.86</u>	<u>\$ 1,461.90</u>	<u>\$ 240,774.64</u>	<u>\$ 721,782.48</u>	<u>\$ 7,541.58</u>	<u>\$ 4,096,775.46</u>

CITY OF LAPEER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lapeer was incorporated as a City in 1869. The City of Lapeer has operated since 1919 under a Council-Manager form of government and provides the following services: public safety, highways and streets, water, sanitation, recreation, public improvements, planning, zoning, and general administrative services.

The accounting policies of the City of Lapeer conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

A. Reporting Entity

All funds and account groups under direct control of the City, except for the Lapeer Housing Commission, are included in this report. A separate audit report is prepared by other auditors for this component unit of the City of Lapeer financial reporting entity. These funds and account groups are those which meet the criteria established by Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, and Statement on Michigan Governmental Accounting and Auditing No. 5.

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

Discretely Presented Component Units

The following entities are listed as discretely presented component units of the City in the component unit column to emphasize their legally separate status from the primary government. The City is financially accountable, and exclusion from the general-purpose financial statements would be misleading or incomplete.

Downtown Development Authority
Tax Increment Finance Authority
Economic Development Corporation
Local Development Financing Authority
Brownfield Redevelopment Authority

Complete financial statements for each individual component unit may be obtained at the entity's administrative office.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Lapeer and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services. The primary government of the City of Lapeer is reported separately from certain legally separate component units for which the City of Lapeer, the primary government, is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Lapeer.

The City of Lapeer reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

C. Measurement Focus, Basis of Accounting, and Financial Statements - Continued

The Major Street fund accounts for major street improvements and resurfacing projects.

The Parks and Recreation fund accounts for the activities used to run and maintain the community center and parks throughout the City.

The 1998 Special Assessment Bond fund is used to account for the resources accumulated and payments made for principal and interest payments on these bonds.

The 2002 Special Assessment Bond fund is used to account for the resources accumulated and payments made for principal and interest payments on these bonds.

The City of Lapeer reports the following major proprietary funds:

The Wastewater fund accounts for the activities and operations of the sewage treatment plant and the sewage pumping stations.

The Water fund accounts for the activities and operations of the water distribution system.

The Auto Parking fund accounts for the operation and maintenance of the City's metered and non-metered parking lots.

Additionally, the City of Lapeer reports the following fund types:

Internal Service funds are used to account for motor pool, computer and telephone services provided to other departments on a cost reimbursement basis.

The Mount Hope Cemetery Trust fund is used to account for resources legally held in trust to be used for cemetery perpetual care. All resources of the fund, including any earnings on invested resources, may be used to support the organization's activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Lapeer has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Water Fund, Wastewater Fund, and the Auto Parking Fund and other functions and segments.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

C. Measurement Focus, Basis of Accounting, and Financial Statements - Concluded

When both restricted and unrestricted resources are available for use, it is the City of Lapeer's policy to use restricted resources first. Unrestricted resources are used as they are needed.

D. Budgets and Budgetary Accounting

The City of Lapeer follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May, the Manager submits to the City Commission an operating budget for the fiscal year commencing July 1.
2. No later than May 31, the City Commission legally adopts the budget by resolution.
3. The City Manager has the authority to transfer any amount of money within departments of a fund. Any transfers between funds in excess of \$5,000.00 are proposed to the City Commission for their approval.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Also, all budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Budget amounts are as originally adopted, or as amended by the City Manager or City Commission. Individual amendments were not material in relation to the original appropriations, which were amended.
6. All annual appropriations lapse at year end.

E. Receivables

Receivables have been recognized for all significant amounts due the City. No allowances have been made for uncollectible amounts because, if they remain unpaid, most delinquent receivables can be added to the tax roll and become a lien against the property.

F. Inventories

Inventories and supplies held by the Automobile Parking System, Parks, Cemetery and the Waste Water Treatment Plant are immaterial in amount and have not been recognized on the accounting records.

The inventory of supplies held by the Water Supply System, Motor Pool and General Fund as of June 30, 2005 were determined by physical count and valued at cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Lapeer as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

G. Capital Assets - Concluded

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years
Equipment	5-20 years
Vehicles	3-10 years
Utility systems	10-40 years
Streets	20-25 years
Bridges	20-25 years
Sidewalks	20-25 years

H. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded**

J. Deposits and Investments

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all the component units are reported at fair value.

K. Restricted Assets

Certain proceeds of the Wastewater and Water Fund's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

L. Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and fiduciary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2: **PROPERTY TAX**

Property tax revenues for 2004 reflected in the accompanying financial statements include property taxes levied July 1, 2004, and substantially collected at June 30, 2005.

The total 2004 levy for the City was \$1,831,346.07.

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied on July 1, and payable by July 31. The City bills and collects its own property taxes. The City is permitted by the City Charter to levy taxes up to \$1.00 per \$100.00 of assessed valuation for general governmental services, other than the payment of principal and interest on long-term debt, and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services other than the payment of principal and interest on long-term debt for the year ended June 30, 2005, was \$.88 per \$100.00, which means that the City has a tax margin of \$.12 per \$100.00 and could raise up to \$251,897.00 additional tax per year from the present taxable value of \$208,369,033.00 before the limit is reached.

The City levied the following taxes for fiscal year 04-05:

General Governmental Services	\$ <u>8.7911</u>
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The delinquent real property taxes of the City are sold to the County of Lapeer. The County intends to sell tax notes as a means of financing the purchase of these property taxes.

NOTE 3: **ACCUMULATED VACATION AND SICK LEAVE**

Accrued vacation and sick leave is recorded as a governmental fund liability at June 30, 2005, to the extent that it is to be liquidated with expendable available financial resources within the current operating cycle. Vacation and sick leave earned as of June 30, 2005, but not liquidated within the current operating cycle is recorded in the General Long-Term Debt Account Group.

Vacation days are earned by employees at a rate of 5 to 26 days per year.

NOTE 3: ACCUMULATED VACATION AND SICK LEAVE - Concluded

Sick days are earned by employees at a rate of 1 day for each year of service at the beginning of every year plus 1 day per month during the year. Each employee will have 1 less sick day each year until a level of 13 annual sick days has been attained. An employee with no limitation may accumulate unused sick days. However, for payout purposes, sick leave is capped at 160 days or such higher cap as established as of July 1, 1988. Employees with 10 or more years of seniority are paid for fifty percent of their accumulated sick days up to their cap upon retirement or death. Employees with 15 or more years of seniority are paid one-third of accumulated sick days up to their cap upon voluntary resignation. Union employees hired after July 1, 1988 except for AFSCME which is January 11, 1989 and non-union employees hired after November 1, 1988 earn sick days at the rate of .833 day per month. Unused sick days may be accumulated by an employee with no limitations, and with no payment of unused sick leave upon termination of employment.

NOTE 4: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that cities and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the City Commission.

The following are the activities for which expenditures were made in excess of budget:

FUNDS	BUDGET	ACTUAL	VARIANCE UNFAVORABLE
Special Revenue			
Public Safety Training	\$ 4,100.00	\$ 4,229.02	\$(129.02)

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2005 are as follows:

FUND	DUE FROM	FUND	DUE TO
General	\$ 98,413.94	Oakdale Development	\$ 49,128.97
		Housing Resource	23,213.67
		Infrastructure	4,207.97
		Information Technology	20,681.90
		Telephone Communication	159.28
		Tax Collection	1,022.15
Subtotal	<u>98,413.94</u>	Subtotal	<u>98,413.94</u>
Oakdale Development	<u>51,987.03</u>	TIFA III	<u>51,987.03</u>
DDA	1,580.14	General	3,961.59
LDFA	398.84		
TIFA I	929.48		
TIFA II	190.95		
TIFA III	849.47		
TIFA IV	<u>12.71</u>		
Subtotal	<u>3,961.59</u>	Subtotal	<u>3,961.59</u>

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES - Concluded

FUND	DUE FROM	FUND	DUE TO
Capital Improvement	\$ <u>1,000.00</u>	TIFA III	\$ <u>1,000.00</u>
Major Street	199,623.02	2003 General Obligation Construction	3,618.89
		TIFA II	5,272.22
		TIFA I	7,744.28
		TIFA III	178,636.82
		2003 Special Assessment Construction	<u>4,350.81</u>
Subtotal	<u>199,623.02</u>	Subtotal	<u>199,623.02</u>
Water Treatment Plant	4,007.65	Tax Collection	31,887.24
Water	4,106.67		
Parks	354.48		
2004 Special Assessment	4,478.42		
1995 Special Assessment	511.91		
1996 Special Assessment	2,566.93		
1997 Special Assessment	3,502.65		
2001 Special Assessment	2,279.83		
2000 Special Assessment	326.23		
1998B Special Assessment	470.61		
2002 Special Assessment	9,024.00		
Capital Improvement	<u>257.86</u>		
Subtotal	<u>31,887.24</u>	Subtotal	<u>31,887.24</u>
Parks	2,854.78	DDA	2,161.50
		TIFA II	<u>693.28</u>
Subtotal	<u>2,854.78</u>	Subtotal	<u>2,854.78</u>
TOTAL	\$ <u>389,727.60</u>	TOTAL	\$ <u>389,727.60</u>

RECONCILIATION TO STATEMENTS

	DUE FROM	DUE TO
Government funds	\$ 268,328.61	\$
Proprietary funds		
Business-type	8,114.32	
Internal service		
Fiduciary		32,909.39
Component unit	<u>4,229.94</u>	<u>247,763.48</u>
	\$ <u>280,672.87</u>	\$ <u>280,672.87</u>

The interfund receivables and payables were made for cash flow purposes.

NOTE 6: OPERATING TRANSFERS

The following are the operating transfers for the year ended June 30, 2005:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Police K-9	\$ 1,750.00	General	\$ 1,054,175.15
Youth Mini Grant	5,000.00		
Parks and Recreation	233,554.00		
Mt. Hope Cemetery	58,465.00		
2002 Equipment Financing Debt	7,643.00		
Building Department	35,000.00		
2004 Equipment Financing Debt	76,350.00		
2001 Building Authority Bond	99,350.00		
2002 Building Authority Bond	182,824.00		
Land Acquisition	<u>354,239.15</u>		
Subtotal	<u>1,054,175.15</u>	Subtotal	<u>1,054,175.15</u>
2002 Equipment Financing Debt	771.00	Major Street	477,733.00
2000 General Obligation Limited Tax Bond Debt	34,113.00		
1997 General Obligation Limited Tax Bond Debt	56,335.00		
1998 General Obligation Limited Tax Bond Debt	122,628.00		
1998B General Obligation Limited Tax Bond Debt	23,580.00		
2001 General Obligation Limited Tax Bond Debt	29,076.00		
Local Street	101,372.00		
2002 General Obligation Limited Tax Bond Debt	81,855.00		
2003 General Obligation Limited Tax Bond Debt	<u>28,003.00</u>		
Subtotal	<u>477,733.00</u>	Subtotal	<u>477,733.00</u>
2002 Equipment Financing Debt	771.00	Local Street	15,881.00
1990 Michigan Transportation	<u>15,110.00</u>		
	<u>15,881.00</u>		<u>15,881.00</u>
Major Street	417,376.17	Downtown Development Authority	27,645.76
		Capital Improvement	15,000.00
		Tax Increment Finance Authority	352,521.01
		2003 General Obligation Construction	3,618.89
		2003 Special Assessment Construction	<u>18,590.51</u>
Subtotal	<u>417,376.17</u>	Subtotal	<u>417,376.17</u>
2001 Building Authority Bond	30,236.00	Capital Improvement	66,926.53
Downtown Development Authority	7,500.00		
Parks and Recreation	2,000.00		
1995 General Obligation Limited Tax Bond Debt	10,661.53		
1996 General Obligation Limited Tax Bond Debt	<u>16,529.00</u>		
Subtotal	<u>66,926.53</u>	Subtotal	<u>66,926.53</u>

NOTE 6: **OPERATING TRANSFERS** – Continued

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Mt. Hope Cemetery	\$ <u>3,638.47</u>	Mt. Hope Cemetery Perpetual Care-expendable	\$ <u>3,638.47</u>
2002 Equipment Financing Debt	5,994.00	Wastewater Treatment Plant	27,639.00
1999 Building Authority Bond	<u>21,645.00</u>		
Subtotal	<u>27,639.00</u>	Subtotal	<u>27,639.00</u>
Capital Improvement	<u>3,189.75</u>	Tax Increment Finance Authority	<u>3,189.75</u>
General	892,280.63	Motor Pool	64,690.00
		Waste Water Treatment Plant	318,572.00
		Local Development Finance Authority	9,961.00
		Land Acquisition	207,825.00
		Parking	6,551.00
		Brownfield Redevelopment	190.00
		Building Department	16,608.63
		Housing Resource	27,500.00
		Downtown Development Authority	7,263.00
		Tax Increment Finance Authority	68,946.00
		Water Supply	<u>164,174.00</u>
Subtotal	<u>892,280.63</u>	Subtotal	<u>892,280.63</u>
Oakdale Development	<u>137,965.50</u>	Tax Increment Finance Authority	<u>137,965.50</u>
Tax Increment Finance Authority	689,174.71	General	897,532.57
Local Development Finance Authority	99,416.67		
Downtown Development Authority	107,333.84		
Brownfield Redevelopment	<u>1,607.35</u>		
Subtotal	<u>897,532.57</u>	Subtotal	<u>897,532.57</u>
Water Supply	<u>943.27</u>	Building Department	<u>943.27</u>
Parks and Recreation	<u>574,945.54</u>	Tax Increment Finance Authority	<u>574,945.54</u>
2002 Equipment Financing Debt	1,275.00	Motor Pool	35,906.00
1999 Building Authority Bond	<u>34,631.00</u>		
Subtotal	<u>35,906.00</u>	Subtotal	<u>35,906.00</u>
2002 Equipment Financing Debt	5,994.00	Water Supply	36,297.00
1999 Building Authority Bond	<u>30,303.00</u>		
Subtotal	<u>36,297.00</u>	Subtotal	<u>36,297.00</u>
2002 Equipment Financing Debt	<u>822.00</u>	Parks and Recreation	<u>822.00</u>
2001 Building Authority Bond	<u>27,054.00</u>	Oakdale Development	<u>27,054.00</u>

NOTE 6: OPERATING TRANSFERS – Concluded

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Waste Water Treatment Plant	\$ <u>19.23</u>	Building Department	\$ <u>19.23</u>
Local Street	<u>65.44</u>	1990 Michigan Transportation	<u>65.44</u>
Information Technology	<u>476.36</u>	2002 Equipment Financing	<u>476.36</u>
2004 Equipment Financing Debt	<u>4,269.41</u>	Mt. Hope Cemetery	<u>4,259.00</u>
		2004 Equipment Financing	<u>10.41</u>
Subtotal	<u>4,269.41</u>	Subtotal	<u>4,269.41</u>
Land Acquisition	<u>173,266.00</u>	2002 Equipment Financing Debt	<u>23,266.00</u>
		2005 Equipment Financing	<u>150,000.00</u>
Subtotal	<u>173,266.00</u>	Subtotal	<u>173,266.00</u>
Parks and Recreation	<u>44,390.50</u>	Youth Mini Grant	<u>5,000.00</u>
		Downtown Development Authority	<u>2,161.50</u>
		Land Acquisition	<u>37,229.00</u>
Subtotal	<u>44,390.50</u>	Subtotal	<u>44,390.50</u>
TOTAL	\$ <u>4,892,792.52</u>	TOTAL	\$ <u>4,892,792.52</u>

RECONCILIATION TO STATEMENTS

	TRANSFERS IN	TRANSFERS OUT
Government funds	\$ 3,986,321.09	\$ 3,054,174.46
Proprietary funds		
Business-type	962.50	553,233.00
Internal service	476.36	100,596.00
Component Unit	<u>905,032.57</u>	<u>1,164,450.08</u>
Subtotal	<u>4,892,792.52</u>	<u>4,872,453.54</u>
Component Unit Principal		<u>20,338.98</u>
TOTAL	\$ <u>4,892,792.52</u>	\$ <u>4,892,792.52</u>

These transfers were made for cash flow purposes.

NOTE 7: CASH AND INVESTMENTS

The cash equity of the various funds at June 30, 2005 is as follows:

FUND	COMMON CASH	OTHER CASH	INVESTMENTS	RESTRICTED CASH AND INVESTMENTS	TOTAL
General	\$ 541,304.82	\$ 1,010.55	\$ 1,530,000.00	\$	\$ 2,072,315.37
Major Street	138,304.04				138,304.04
Local Street	342,930.34				342,930.34
Parks and Recreation	248,762.03	8,613.09			257,375.12
Mt. Hope Cemetery	10,156.12				10,156.12
Youth Mini-grant	363.14				363.14
Local Development					
Finance Authority		514,609.75			514,609.75
Drug Law Enforcement	16,719.17				16,719.17
D.A.R.E.	9,728.92				9,728.92
Public safety training	2,358.85				2,358.85
Economic Development					
Corporation (12-31-04)		7,541.58			7,541.58
Downtown Development					
Authority	33,950.77	133,779.95			167,730.72
Building Department	16,982.68				16,982.68
General forfeiture	12,835.02				12,835.02
Police K-9 Program	4,569.59				4,569.59
Tax Increment					
Finance Authority		1,219,067.49		573,004.81	1,792,072.30
1996 General Obligation					
Limited Tax Bonds		2,606.26			2,606.26
1997 General Obligation					
Limited Tax Bonds		1,925.70			1,925.70
1998 General Obligation					
Limited Tax Bonds		3,551.74			3,551.74
1998 Series B General Obligation					
Limited Tax Bonds		1,417.26			1,417.26
2000 General Obligation					
Limited Tax Bonds		1,484.55			1,484.55
2001 General Obligation					
Limited Tax Bonds		3,882.66			3,882.66
2003 Special Assessment Bonds	1,279.58	108,025.64			109,305.22
1995 Special Assessment Bonds	352.20	54,120.64			54,472.84
1996 Special Assessment Bonds	1,397.16	47,375.00			48,772.16
1997 Special Assessment Bonds	3,733.17	140,349.03			144,082.20
1998 Special Assessment Bonds	5,712.02	292,600.73			298,312.75
1998 Series B Special					
Assessment Bonds		38,356.53			38,356.53
2000 Special Assessment Bonds		16,493.11			16,493.11
2001 Special Assessment Bonds	245.93	83,580.44			83,826.37
2002 Special Assessment Bonds	2,080.15	110,971.94			113,052.09
2003 General Obligation					
Construction		52,962.10			52,962.10

NOTE 7: CASH AND INVESTMENTS – Continued

FUND	COMMON CASH	OTHER CASH	INVESTMENTS	RESTRICTED CASH AND INVESTMENTS	TOTAL
2002 Building Authority Bonds	\$	\$ 22,618.23	\$	\$	\$ 22,618.23
2001 Building Authority Bonds		28,751.54			28,751.54
1999 Building Authority Bonds		35,531.79			35,531.79
2004 Equipment Financing Debt Fund	522.07				522.07
Land acquisition	587,571.46				587,571.46
Auto parking	12,297.42				12,297.42
Waste Water Treatment Plant	137,129.19			1,458,237.60	1,595,366.79
Water supply	128,930.13	100.00	17,143.73	352,856.27	499,030.13
Motor Pool	211,102.08				211,102.08
Mt. Hope Cemetery Perpetual Care	151,332.26				151,332.26
2002 General Obligation Limited Tax Bonds		16.68			16.68
2003 General Obligation Limited Tax Bonds		471.50			471.50
2003 Special Assessment Construction		33,779.74			33,779.74
2002 Equipment Financing Debt Fund	118.97	77.11			196.08
2003 Equipment Financing Debt Fund		4,883.14			4,883.14
2005 Equipment Financing	4.15				4.15
Tax Collection	4,085.28				4,085.28
Payroll Clearing	79,500.26				79,500.26
Brownfield Redevelopment Authority		1,461.90			1,461.90
TOTAL	\$ 2,706,358.97	\$ 2,972,017.37	\$ 1,547,143.73	\$ 2,384,098.68	\$ 9,609,618.75

RECONCILIATION TO STATEMENTS

	COMMON CASH	OTHER CASH	INVESTMENTS	RESTRICTED CASH AND INVESTMENTS	TOTAL
Government funds	\$ 2,099,363.84	\$ 1,095,456.70	\$ 1,530,000.00	\$	\$ 4,724,820.54
Proprietary funds					
Enterprise	278,356.74	100.00	17,143.73	1,811,093.87	2,106,694.34
Internal service	211,102.08				211,102.08
Fiduciary funds	83,585.54				83,585.54
Component units	33,950.77	1,876,460.67		573,004.81	2,483,416.25
TOTAL	\$ 2,706,358.97	\$ 2,972,017.37	\$ 1,547,143.73	\$ 2,384,098.68	\$ 9,609,618.75

NOTE 7: CASH AND INVESTMENTS - Concluded

FINANCIAL STATEMENT
PRESENTATION

Cash	\$ 5,678,376.34
Investments	1,547,143.73
Restricted cash and investments	<u>2,384,098.68</u>
TOTAL	<u>\$ 9,609,618.75</u>

Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper within the three highest rate classifications by at least two rating services, repurchase agreements collateralized by U. S. government securities, bankers acceptances and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

As of June 30, 2005, the carrying amount and bank balance for each type of account is as follows:

ACCOUNT TYPE	BOOK BALANCE	BANK BALANCE
Cash deposits	\$ <u>9,609,618.75</u>	\$ <u>9,844,921.73</u>

The City's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the City. Category 1 includes deposits and investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

At June 30, 2005, the City's investments were categorized as follows:

Category 1	\$ 1,569,274.44
Category 2	8,275,647.29
Category 3	

The City has adopted a formal investment policy as required by Act 20, P. A. 1943 as amended, that complies with State law.

Plan Description

The City participates in the Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the City of Lapeer, City Hall, Lapeer, Michigan.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units, and requires a contribution from the City of 9.15 to 20.39 percent of employee salaries.

NOTE 8: **DEFINED BENEFIT PENSION PLAN**

Annual Pension Cost

For year ended December 31, 2004 the City's annual pension cost of \$353,491.11 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, and (b) projected salary increases of 4.5 percent per year. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	FISCAL YEAR ENDED DECEMBER 31,		
	2002	2003	2004
Annual pension cost	\$ 300,197	\$ 322,057	\$ 353,491
Percentage of APC contributed	100%	100%	100%
Net pension obligation			
Actuarial value of assets	8,871,460	9,380,754	9,823,323
Actuarial Accrued Liability (entry age)	10,750,223	11,968,367	12,853,822
Unfunded Actuarial Accrued Liability	1,878,763	2,587,613	3,030,499
Funded ratio	82.5%	78.4%	76.4%
Covered payroll	3,387,332	3,531,312	3,383,988
UAAL as a percentage of covered payroll	55.6%	73.3%	89.6%

NOTE 9: **LONG-TERM OBLIGATIONS**

The following is a summary of long-term debt transactions of the primary government and all component units for the year ended June 30, 2005:

	WATER AND SEWER REVENUE BONDS	GENERAL OBLIGATION BONDS	NOTES PAYABLE	COMPENSATED ABSENCES
As of July 1, 2004	\$ 375,000.00	\$ 11,065,000.00	\$ 427,328.42	\$ 556,137.08
Additions (Reductions)	(60,000.00)	(1,610,000.00)	223,777.54	30,947.62
As of June 30, 2005	\$ 315,000.00	\$ 9,455,000.00	\$ 651,105.96	\$ 587,084.70

Long-term debt at June 30, 2005 is comprised of the individual issues:

	BALANCE AS OF JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE AS OF JUNE 30, 2005	DUE WITHIN ONE YEAR
BUSINESS-TYPE ACTIVITIES				
\$94,853.20 2005 Backhoe and loader loan due in annual installments of \$8,155.04 to \$10,947.90 through March 1, 2014; interest at 3.75%	\$	\$ 85,424.29	\$ 85,424.29	\$ 8,155.04
\$395,000.00 1986 Water Supply System Revenue Bonds due in annual installments of \$25,000.00 to \$35,000.00 through May 1, 2006; interest at 7.125% to 7.375%.	70,000.00	(35,000.00)	\$ 35,000.00	\$ 35,000.00

NOTE 9: **LONG-TERM OBLIGATIONS** – Continued

	BALANCE AS OF JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE AS OF JUNE 30, 2005	DUE WITHIN ONE YEAR
BUSINESS-TYPE ACTIVITIES - Concluded				
\$520,000.00 1987 Sewer Revenue Bonds due in annual installments of \$20,000.00 to \$50,000.00 through May 1, 2012; interest at 7.525% to 7.75%.	\$ <u>305,000.00</u>	\$ (<u>25,000.00</u>)	\$ <u>280,000.00</u>	\$ <u>30,000.00</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>375,000.00</u>	\$ <u>25,424.29</u>	400,424.29	\$ <u>73,155.04</u>
Less: Amount payable within one year			(<u>73,155.04</u>)	
TOTAL LONG-TERM DEBT BUSINESS-TYPE ACTIVITIES			\$ <u>327,269.25</u>	
GOVERNMENTAL ACTIVITIES PRIMARY GOVERNMENT				
\$31,293.60 Backhoe and loader loan due in annual installments of \$2,690.48 to \$3,611.89 through March 1, 2014; interest at 3.75%	\$	\$ 28,182.85	\$ 28,182.85	\$ 2,690.48
\$152,000.00 2005 Abstract Building installment and purchase loan in annual installments of \$14,319.33 through February 1, 2019; interest at 3.870%		152,000.00	152,000.00	14,319.33
\$205,000.00 2003 Special Assessment Bonds due in annual installments of \$15,000.00 to \$25,000.00 through December 1, 2012; interest at 2.20% to 5.20% per annum.	205,000.00	(15,000.00)	190,000.00	25,000.00
\$225,000.00 2003 General Obligation Tax Bonds due in annual installments of \$15,000.00 to \$30,000.00 through December 1, 2012; interest at 2.20% to 5.20% per annum.	225,000.00	(15,000.00)	210,000.00	25,000.00
\$200,000.00 2001 Special Assessment Bonds due in annual installments of \$5,000.00 to \$25,000.00 through December 1, 2010; interest at 3.90% per annum.	150,000.00	(20,000.00)	130,000.00	20,000.00
\$275,000.00 2001 General Obligation Limited Tax Bond due in annual installments of \$20,000.00 to \$50,000.00 through December 1, 2010; interest at 3.90% per annum.	235,000.00	(20,000.00)	215,000.00	20,000.00

NOTE 9: LONG-TERM OBLIGATIONS - Continued

	BALANCE AS OF JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE AS OF JUNE 30, 2005	DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES PRIMARY GOVERNMENT - Continued				
\$940,000.00 1995 Special Assessment Bonds due in annual installments of \$100,000.00 through January 1, 2005; interest at 4.85% to 5.25%.	\$ 100,000.00	\$(100,000.00)	\$	\$
\$110,000.00 1995 General Obligation Limited Tax Bonds due in annual installments of \$10,000.00 to \$15,000.00 through January 1, 2005; interest at 4.85% to 5.25%.	15,000.00	(15,000.00)		
\$112,000.00 1996 Special Assessment Bonds due in annual installments of \$10,000.00 to \$15,000.00 through October 1, 2005; interest at 5.05% to 5.45%.	25,000.00	(10,000.00)	15,000.00	15,000.00
\$90,000.00 1996 General Obligation Limited Tax Bond due in annual installments of \$10,000.00 to \$15,000.00 through October 1, 2005; interest at 5.05% to 5.45%.	30,000.00	(15,000.00)	15,000.00	15,000.00
\$100,000.00 1990 Michigan Transportation Fund Bonds due in annual installments of \$4,000.00 to \$20,000.00 through March 1, 2005; interest at 7.50%.	20,000.00	(20,000.00)		
\$385,000.00 1997 General Obligation Tax Bonds due in annual installments of \$35,000.00 to \$50,000.00 through January 1, 2007; interest at 4.40% to 5.50%.	150,000.00	(50,000.00)	100,000.00	50,000.00
\$510,000.00 1997 Special Assessment Bonds due in annual installments of \$45,000.00 to \$60,000.00 through December 1, 2006; interest at 4.40% to 5.50%.	165,000.00	(60,000.00)	105,000.00	60,000.00
\$385,000.00 2002 Special Assessment Bonds due in annual installments of \$10,000.00 to \$45,000.00 through November 1, 2011; interest at 4.25% to 4.50%.	335,000.00	(45,000.00)	290,000.00	40,000.00
\$390,000.00 2002 General Obligation Tax Bonds due in annual installments of \$15,000.00 to \$75,000.00 through November 1, 2011; interest at 4.25% to 4.50%.	347,033.91	(39,661.02)	307,372.89	39,661.02

NOTE 9: **LONG-TERM OBLIGATIONS** - Continued

	BALANCE AS OF JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE AS OF JUNE 30, 2005	DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES				
PRIMARY GOVERNMENT - Continued				
\$1,780,000.00 1998 Special Assessment Bonds due in annual installments of \$160,000.00 to \$215,000.00 through September 1, 2007; interest at 4.25% to 4.30%.	\$ 810,000.00	\$(190,000.00)	\$ 620,000.00	\$ 200,000.00
\$180,000.00 1998 Series B General Obligation Limited Tax Bonds due in annual installments of \$15,000.00 to \$20,000.00 through February 1, 2008; interest 3.85% to 6.85%.	80,000.00	(20,000.00)	60,000.00	20,000.00
\$134,000.00 1998 Series B Special Assessment Bonds due in annual installments of \$10,000.00 to \$15,000.00 through February 1, 2008; interest at 3.85% to 6.85%.	55,000.00	(10,000.00)	45,000.00	15,000.00
\$995,000.00 1999 Building Authority Bonds due in annual installment of \$45,000.00 to \$100,000.00 through September 1, 2013; interest at 4.15%.	755,000.00	(60,000.00)	695,000.00	60,000.00
\$1,000,000.00 1998 General Obligation Tax Bonds due in annual installments of \$90,000.00 to \$125,000.00 through September 1, 2007; interest at 4.25% to 4.30%.	455,000.00	(105,000.00)	350,000.00	110,000.00
\$270,000.00 2000 General Obligation Limited Tax Bonds due in annual installments of \$20,000.00 to \$50,000.00 through December 1, 2009; interest at 4.70%.	200,000.00	(25,000.00)	175,000.00	25,000.00
\$1,705,000.00 2001 Building Authority Bonds due in annual installments of \$85,000.00 to \$155,000.00 through April 1, 2016; interest at 4.00% to 4.70%.	1,440,000.00	(95,000.00)	1,345,000.00	100,000.00
\$75,000.00 2000 Special Assessment Bonds due in annual installments of \$5,000.00 to \$10,000.00 through December 1, 2009; interest at 4.70%.	50,000.00	(10,000.00)	40,000.00	5,000.00
\$1,285,000.00 2002 Building Authority Bonds due in annual installments of \$110,000.00 to \$150,000.00 through October 1, 2012; interest at 3.00% to 3.75%.	1,160,000.00	(150,000.00)	1,010,000.00	140,000.00

NOTE 9: LONG-TERM OBLIGATIONS - Continued

	BALANCE AS OF JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE AS OF JUNE 30, 2005	DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES				
PRIMARY GOVERNMENT - Concluded				
\$285,000.00 Fire Truck Attachments loan due in annual installments of \$76,349.59 through January 1, 2007; interest included at 2.83%.	216,671.11	(70,217.79)	146,453.32	72,204.96
Accumulated compensated absences	<u>556,137.08</u>	<u>30,947.62</u>	<u>587,084.70</u>	<u> </u>
TOTAL PRIMARY GOVERNMENT	<u>7,779,842.10</u>	<u>(948,748.34)</u>	<u>6,831,093.76</u>	<u>1,073,875.79</u>
GOVERNMENTAL ACTIVITIES				
INTERNAL SERVICE				
\$94,853.20 2005 Backhoe and loader loan due in annual installments of \$8,155.04 to \$10,947.90 through March 1, 2014; interest at 3.75%.	\$	\$ 85,424.29	\$ 85,424.29	\$ 8,155.04
\$67,308.00 Computer loan due in annual installments of \$18,362.56 through November 1, 2006; interest included at 3.535%.	51,357.82	(16,516.80)	34,841.02	17,113.82
\$115,800.00 Street Sweeper loan due in annual installments of \$17,306.21 through August 1, 2010; interest included at 4.15%.	103,299.49	(13,019.30)	90,280.19	13,559.59
\$25,000.00 Police Vehicle loan due in annual installments of \$12,804.17 to \$13,108.33 through March 1, 2006; interest at 4.00%	25,000.00	(12,500.00)	12,500.00	12,500.00
\$46,000.00 Computer Installment Purchase Agreement due in annual installments Of \$15,000.00 to \$16,000.00 through March 1, 2006; interest at 1.70%	<u>31,000.00</u>	<u>(15,000.00)</u>	<u>16,000.00</u>	<u>16,000.00</u>
TOTAL INTERNAL SERVICE	<u>210,657.31</u>	<u>28,388.19</u>	<u>239,045.50</u>	<u>67,328.45</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>7,990,499.41</u>	\$ <u>(920,360.15)</u>	7,070,139.26	\$ <u>1,141,204.24</u>
Less: Amount payable within one year			<u>1,141,204.24</u>	
TOTAL LONG-TERM DEBT GOVERNMENTAL ACTIVITIES			\$ <u>5,928,935.02</u>	

NOTE 9: LONG-TERM OBLIGATIONS - Continued

	BALANCE AS OF JULY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE AS OF JUNE 30, 2005	DUE WITHIN ONE YEAR
COMPONENT UNITS				
\$5,730,000.00 Tax Increment Revenue Refunding Bond due in annual installments of \$275,000.00 to \$575,000.00 through June 1, 2012; interest at 4.50% to 5.50%. On the balance sheet the principal amount is netted with the bond discount.	\$ 3,880,000.00	\$ (500,000.00)	\$ 3,380,000.00	\$ 535,000.00
\$200,000 2002 General Obligation Tax bonds due in installments of \$16,949.15 to \$25,423.73 through November 1, 2011; interest at 4.25% to 4.30%	<u>177,966.09</u>	<u>(20,338.98)</u>	<u>157,627.11</u>	<u>20,338.98</u>
TOTAL COMPONENT UNIT	\$ <u>4,057,966.09</u>	\$ <u>(520,338.98)</u>	3,537,627.11	\$ <u>555,338.98</u>
Less: Amount due within one year			<u>(555,338.98)</u>	
TOTAL LONG-TERM DEBT COMPONENT UNITS			\$ <u>2,982,288.13</u>	

The annual requirements to pay future principal and interest are as follows:

	REVENUE BONDS	GENERAL OBLIGATION BONDS	SPECIAL ASSESSMENT BONDS	PURCHASE CONTRACT	TOTAL
YEAR ENDING JUNE 30,					
2006 Principal	\$ 600,000.00	\$ 625,000.00	\$ 380,000.00	\$ 158,734.17	\$ 1,763,734.17
Interest	198,300.00	178,931.25	52,308.75	23,143.94	452,683.94
Total	798,300.00	803,931.25	432,308.75	181,878.11	2,216,418.11
2007 Principal	605,000.00	620,000.00	360,000.00	134,494.03	1,719,494.03
Interest	168,425.00	154,076.25	36,135.00	18,307.91	376,944.16
Total	773,425.00	774,076.25	396,135.00	152,801.94	2,096,438.19
2008 Principal	500,000.00	585,000.00	325,000.00	44,184.48	1,454,184.48
Interest	135,375.00	130,421.25	21,673.75	13,905.31	301,375.31
Total	635,375.00	715,421.25	346,673.75	58,089.79	1,755,559.79
2009 Principal	480,000.00	495,000.00	95,000.00	45,902.38	1,115,902.38
Interest	108,120.00	109,210.00	12,880.00	12,187.41	242,397.41
Total	588,120.00	604,210.00	107,880.00	58,089.79	1,358,299.79
2010 Principal	505,000.00	515,000.00	105,000.00	47,714.80	1,172,714.80
Interest	81,960.00	89,212.50	8,982.50	10,374.99	190,529.99
Total	586,960.00	604,212.50	113,982.50	58,089.79	1,363,244.79

NOTE 9: **LONG-TERM OBLIGATIONS – Concluded**

		REVENUE BONDS	GENERAL OBLIGATION BONDS	SPECIAL ASSESSMENT BONDS	PURCHASE CONTRACT	TOTAL
YEAR ENDING JUNE 30,						
2011 – 2015						
Principal	\$	1,005,000.00	\$ 1,645,000.00	\$ 170,000.00	\$ 168,008.84	\$ 2,988,008.84
Interest		70,400.00	191,282.50	7,857.50	26,751.00	296,291.00
Total		1,075,400.00	1,836,282.50	177,857.50	194,759.84	3,284,299.84
2016 – 2020						
Principal			155,000.00		52,067.26	207,067.26
Interest			7,285.00		5,210.06	12,495.06
Total			162,285.00		57,277.32	219,562.32
TOTAL						
Principal		3,695,000.00	4,640,000.00	1,435,000.00	651,105.96	10,421,105.96
Interest		762,580.00	860,418.75	139,837.50	109,880.62	1,872,716.87
Total		4,457,580.00	5,500,418.75	1,574,837.50	760,986.58	12,293,822.83

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

NOTE 10: **FUND EQUITY RESERVES AND DESIGNATIONS**

Fund Balances:

Reserved for Cemetery Perpetual Care

This amount reflects the fund balance of the Mt. Hope Cemetery Perpetual Care Fund restricted for perpetual care maintenance.

Reserved for Prepaid Expenses

These amounts have been reserved to segregate a portion of fund balance for prepaid expenses that appear as an asset on the balance sheet.

Reserved for Inventory

These amounts have been reserved to segregate a portion of fund balance for inventory that appears as an asset on the balance sheet.

Reserved for Receivables

These amounts have been reserved to segregate a portion of fund balance for accounts receivable that appears as an asset on the balance sheet.

Reserved for Operation Maintenance

These amounts have been reserved to segregate a portion of fund balance for maintaining operations.

NOTE 10: **FUND EQUITY RESERVES AND DESIGNATIONS - Concluded**

Fund Balances - Concluded:

Reserved for Replacement

These amounts have been reserved to segregate a portion of fund balance for replacement expenditures.

Reserved for Improvements

These amounts have been reserved to segregate a portion of fund balance for purchasing improvements.

Designated for Debt Service

All Debt Service Funds' fund balances are designated by City management to be utilized for future debt service expenditures.

NOTE 11: **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains three Enterprise Funds which provide auto parking, water and sewer services. Segment information for the year ended June 30, 2005, is as follows:

	AUTO PARKING FUND	WASTE WATER TREATMENT PLANT FUND	WATER SUPPLY FUND	TOTAL
Total assets	\$ 385,431.60	\$ 8,714,676.17	\$ 2,797,083.59	\$ 11,897,191.36
Total liabilities	178.42	436,344.85	234,921.49	671,444.76
Contributed capital	336,550.93	6,577,939.92	164,173.72	7,078,664.57
Total net assets	48,702.25	1,700,391.40	2,397,988.38	4,147,082.03
Operating revenues	51,523.08	2,223,750.32	2,143,908.22	4,419,181.62
Operating expenses	77,359.21	1,898,462.25	1,745,097.22	3,720,918.68
Depreciation expense	3,848.07	356,162.04	66,173.35	426,183.46
Operating income (loss)	(25,836.13)	325,288.07	398,811.00	698,262.94
Nonoperating revenues	627.97	25,118.50	8,049.25	33,795.72
Transfers	(6,551.00)	(346,191.77)	(199,527.73)	(552,270.50)
Change in net assets	(31,759.16)	250,521.12	207,332.52	426,094.48
Beginning net assets	80,461.41	1,449,870.28	2,190,655.86	3,720,987.55
Ending net assets	48,702.25	1,700,391.40	2,397,988.38	4,147,082.03
Operating activities	(22,702.02)	653,992.71	483,353.66	1,114,644.35
Noncapital and related financing activities	(6,551.00)	(346,191.77)	(199,527.73)	(552,270.50)
Capital and related financing activities		(325,252.56)	(319,733.79)	(644,986.35)
Investing activities	627.97	33,023.05	11,478.25	45,129.27
Cash and cash equivalents -- beginning	40,922.47	121,557.76	153,459.74	315,939.97
Cash and cash equivalents -- ending	12,297.42	137,129.19	129,030.13	278,456.74

NOTE 12: CAPITAL ASSETS

A summary of changes in governmental capital assets including internal service fund assets are as follows:

	JULY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2005
Capital assets not being depreciated				
Construction in progress	\$ 1,155,791.88	\$ 199,136.97	\$	\$ 1,354,928.85
Land	<u>9,603,701.18</u>	<u>100,000.00</u>	<u>199,040.00</u>	<u>9,504,661.18</u>
Total Capital assets not being depreciated	<u>10,759,493.06</u>	<u>299,136.97</u>	<u>199,040.00</u>	<u>10,859,590.03</u>
Capital assets being depreciated				
Buildings	4,899,162.67	412,000.00		5,311,162.67
Improvements	3,308,879.75			3,308,879.75
Machinery and equipment	4,484,677.66	307,302.60	255,586.85	4,536,393.41
Infrastructure	<u>890,678.49</u>	<u> </u>	<u> </u>	<u>890,678.49</u>
Total Capital assets being depreciated	<u>13,583,398.57</u>	<u>719,302.60</u>	<u>255,586.85</u>	<u>14,047,114.32</u>
Less: accumulated depreciation				
Buildings	\$ 1,055,673.07	\$ 126,226.89	\$	\$ 1,181,899.96
Improvements	1,360,534.98	163,590.71		1,524,125.69
Machinery and equipment	3,666,254.09	286,006.09	244,204.70	3,708,055.48
Infrastructure	<u>83,093.72</u>	<u>42,446.46</u>	<u> </u>	<u>125,540.18</u>
Total Accumulated Depreciation	<u>6,165,555.86</u>	<u>618,270.15</u>	<u>244,204.70</u>	<u>6,539,621.31</u>
Total Capital Assets being depreciated - Net	<u>7,417,842.71</u>	<u>101,285.45</u>	<u>11,635.15</u>	<u>7,507,493.01</u>
NET CAPITAL ASSETS	<u>\$ 18,177,335.77</u>	<u>\$ 400,422.42</u>	<u>\$ 210,675.15</u>	<u>\$ 18,367,083.04</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	AMOUNT
General government	\$ 99,575.54
Public safety	180,893.33
Public works	243,881.90
Community development	1,231.58
Streets	30,966.39
Recreation	<u>61,721.41</u>
TOTAL DEPRECIATION EXPENSE GOVERNMENTAL ACTIVITIES	<u>\$ 618,270.15</u>

NOTE 12: **CAPITAL ASSETS** - Continued

A summary of the asset activity for the governmental activity component units are as follows:

	JULY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2005
COMPONENT UNITS				
Land	\$ 375,173.89	\$	\$	\$ 375,173.89
Buildings	6,761,017.46			6,761,017.46
Improvements	700.00			700.00
Equipment	<u>5,023.29</u>	<u></u>	<u></u>	<u>5,023.29</u>
Total Capital Assets	<u>7,141,914.64</u>	<u></u>	<u></u>	<u>7,141,914.64</u>
Less: accumulated depreciation				
Buildings	1,866,536.55	171,992.13		2,038,528.68
Improvements	385.19	35.00		420.19
Equipment	<u>5,023.29</u>	<u></u>	<u></u>	<u>5,023.29</u>
Total Accumulated Depreciation	<u>1,871,945.03</u>	<u>172,027.13</u>	<u></u>	<u>2,043,972.16</u>
NET CAPITAL ASSETS	<u>\$ 5,269,969.61</u>	<u>\$ (172,027.13)</u>	<u>\$</u>	<u>\$ 5,097,942.48</u>

Capital assets for business-type activities have been summarized as follows:

	JULY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2005
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Construction in progress	\$ 434,396.39	\$ 434,484.91	\$	\$ 868,881.30
Land	<u>797,815.60</u>	<u></u>	<u></u>	<u>797,815.60</u>
Total capital assets not being depreciated	<u>1,232,211.99</u>	<u>434,484.91</u>	<u></u>	<u>1,666,696.90</u>
Capital assets being depreciated				
Buildings	12,019,032.32			12,019,032.32
Machinery and equipment	2,056,024.67	131,266.00	127,401.25	2,059,889.42
Infrastructure	5,505,338.37			5,505,338.37
Improvements	<u>556,186.46</u>	<u></u>	<u></u>	<u>556,186.46</u>
Total Capital assets being depreciated	<u>20,136,581.82</u>	<u>131,266.00</u>	<u>127,401.25</u>	<u>20,140,446.57</u>
Less: accumulated depreciation				
Buildings	6,404,860.80	273,455.96		6,678,316.76
Machinery and equipment	1,766,417.29	77,640.77	127,401.25	1,716,656.81
Infrastructure	3,578,149.87	70,045.33		3,648,195.20
Improvements	<u>509,936.80</u>	<u>5,041.40</u>	<u></u>	<u>514,978.20</u>
Total Accumulated Depreciation	<u>12,259,364.76</u>	<u>426,183.46</u>	<u>127,401.25</u>	<u>12,558,146.97</u>
Total Capital Assets being depreciated	<u>7,877,217.06</u>	<u>(294,917.46)</u>	<u></u>	<u>7,582,299.60</u>
NET CAPITAL ASSETS	<u>\$ 9,109,429.05</u>	<u>\$ 139,567.45</u>	<u>\$</u>	<u>\$ 9,248,996.50</u>

NOTE 12: CAPITAL ASSETS – Concluded

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Auto Parking	\$ 3,848.07
Wastewater	356,162.04
Water	<u>66,173.35</u>
	<u>\$ 426,183.46</u>

NOTE 13: AMORTIZATION OF CONTRIBUTED CAPITAL

The City has received grants from the state and federal governments for the purpose of constructing and equipping a waste water treatment plant. This plant was completed and placed into service during the year ended June 30, 1985. The contributions are being amortized over the useful lives of the assets acquired.

NOTE 14: TAX INCREMENT FINANCE AUTHORITY (TIFA)

The Tax Increment Finance Authority was established by the Lapeer City Commission on April 19, 1982, in accordance with Act 450 of P.A. 1980. In addition, the Lapeer City Commission designated the members of the Lapeer City Economic Development Corporation Board of Directors to constitute the Board of the Tax Increment Finance Authority (TIFA).

NOTE 15: DOWNTOWN DEVELOPMENT AUTHORITY (DDA)

The Downtown Development Authority was established by the Lapeer City Commission on November 24, 1982, in accordance with Act 197 of P.A. 1975. Its purpose is to serve the best interest of the public in halting property value deterioration and to increase property tax valuation in the City's business district. The Authority will also promote economic growth.

NOTE 16: LOCAL DEVELOPMENT FINANCE AUTHORITY (LDFA)

The Local Development Finance Authority was established by the Lapeer City Commission on April 20, 1987 in accordance with Act 281 of 1986. Its purpose is to provide a means for local units of government to eliminate conditions of unemployment, underemployment, and joblessness and to promote economic growth through the use of Tax Increment Financing.

NOTE 17: BROWNFIELD REDEVELOPMENT AUTHORITY

The Brownfield Redevelopment Authority was established by the Lapeer City Commission on January 19, 1998, in accordance with Act 381 of P.A. 1996. Its purpose is to promote the revitalization of environmentally distressed areas.

NOTE 18: LITIGATION

There are several lawsuits pending in which the City is involved. The attorney representing the City estimates that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

NOTE 19: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

NOTE 19: DEFERRED COMPENSATION PLAN - Concluded

The City of Lapeer adopted a new 457 plan document, which incorporates the recent changes to the law governing 457 deferred compensation plans. The most notable change in the plan provides that the employer establish a plan level trust in which all amounts deferred must be placed and held for the exclusive benefit of plan participants and their beneficiaries. As a result of this change, the plan assets are no longer subject to claims of the City's general creditors.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are for the exclusive benefit of the employee or their beneficiary.

It is the opinion of the City that the City has no liability for losses under the plan, but does have a duty of care that would be required of an ordinary prudent investor. Therefore, the deferred compensation assets and liability have been removed from the City's fiduciary fund as is no longer required to be shown in the financial statements for future years.

NOTE 20: ECONOMIC DEVELOPMENT CORPORATION

The Economic Development Corporation is organized pursuant to the State of Michigan, Public Act 338 of 1974, as amended, and the City of Lapeer, Michigan Ordinances. The primary purpose of the Corporation is to encourage and assist commercial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the Corporation entering into lease contracts with commercial enterprises. In accordance with the terms of the lease contracts, the Corporation agrees to issue revenue bonds and the commercial enterprise agrees to make lease payments in amounts equal to the bond principal plus interest. The bond proceeds are used to finance a project, which will benefit the commercial enterprise. The ownership of the project is transferred to the commercial enterprise when the bonds are paid in full. The revenue bonds are payable from the net revenues derived from the project and are collateralized by a mortgage on the project and the lease contract.

The bonds issued by the Corporation and payable from net revenues are not a general obligation of the Corporation, therefore, the bonds and related lease contracts are not reflected in the financial statements of the Corporation.

As of December 31, 2004, the date of the most recent audit, the Corporation has issued the following revenue bonds:

	DATE OF BOND CLOSING	AMOUNT OF REVENUE BONDS ISSUED
First National Bank of Lapeer	12/17/79	\$ 500,000.00
Growth & Opportunity	11/02/79	275,000.00
Peninsular Slate	12/28/79	200,000.00
Doc Development Company	12/21/79	363,000.00
Houghtaling Project	02/11/80	180,000.00
Dowsett Project	11/10/80	300,000.00
The Thread Forms, Inc. Project	11/06/81	400,000.00
MESC Project	02/28/82	323,300.00
Lapeer Foundry & Machine, Inc.	03/11/82	950,000.00
DeMille Industrial Development	06/18/82	200,000.00
The Whitman Project	06/30/83	368,806.00
Growth & Oppor. Inc. II Project	08/22/83	625,000.00
Barnard & Balaze Project	12/28/83	209,000.00
J.L. Avery Project	01/05/84	250,000.00
Lapeer Medical Center	01/17/84	475,000.00
Growth & Opportunity, Inc.	02/13/84	600,000.00
C & P Partnership Project	06/26/85	616,000.00
Copres Leasing Company	12/30/85	806,000.00
The Lapeer Association, Ltd.	06/20/86	1,500,000.00

NOTE 20: **ECONOMIC DEVELOPMENT CORPORATION – Concluded**

	DATE OF BOND CLOSING	AMOUNT OF REVENUE BONDS ISSUED
Lapeer Enterprise Center	12/29/86	\$ 298,531.00
Albar Industries Inc.	11/15/89	3,500,000.00
Dott Manufacturing	11/15/89	4,128,000.00
Lapeer Regional Hospital	06/01/91	1,980,170.00
Vidon Plastics	07/05/95	1,075,000.00
JMA Development, Inc.	09/22/95	1,347,000.00
JMA Development, Inc.	06/17/99	4,000,000.00

NOTE 21: **POST EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 8, the City provides post retirement health care benefits to all of its retired employees and surviving spouses. Currently, the City is paying the health care premiums for 35 retirees. During the year, approximately \$315,556.64 was paid for post retirement health care.

NOTE 22: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for most risks of loss to which it is exposed.

NOTE 23: **FUND DEFICITS**

Information Technology	\$(<u>66,019.24</u>)
Telephone Communication	\$(<u>1,983.37</u>)

NOTE 24: **CONTINUING DISCLOSURE COMPLIANCE**

The schedules in the continuing disclosure section fulfill the continuing disclosure requirements for the various bond issues listed below:

1998 TIFA Revenue
1995 General Obligation and Special Assessment Bonds
1998 General Obligation and Special Assessment Bonds
2001 Building Authority
2002 Building Authority Refunding

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAPEER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u>
REVENUES				<u>(UNFAVORABLE)</u>
Taxes				
Property taxes	\$ 2,148,890.00	\$ 2,148,890.00	\$ 2,147,464.60	\$ (1,425.40)
Penalties and interest	42,000.00	42,000.00	72,547.82	30,547.82
City income taxes	<u>2,135,000.00</u>	<u>2,135,000.00</u>	<u>2,243,650.17</u>	<u>108,650.17</u>
Total Taxes	<u>4,325,890.00</u>	<u>4,325,890.00</u>	<u>4,463,662.59</u>	<u>137,772.59</u>
Federal Grants				
Federal Drug Grant (TNU)	32,000.00	32,000.00	36,050.81	4,050.81
MSHDA Section 8	41,700.00	46,360.00	46,360.00	
Highway safety	1,500.00	1,500.00	3,271.18	1,771.18
School liaison officer			<u>16,320.00</u>	<u>16,320.00</u>
Total Federal Grants	<u>75,200.00</u>	<u>79,860.00</u>	<u>102,001.99</u>	<u>22,141.99</u>
Licenses and Permits				
Licenses	500.00	500.00	425.00	(75.00)
Permits	<u>4,550.00</u>	<u>4,550.00</u>	<u>7,296.50</u>	<u>2,746.50</u>
Total Licenses and Permits	<u>5,050.00</u>	<u>5,050.00</u>	<u>7,721.50</u>	<u>2,671.50</u>
Intergovernmental				
Sales tax	790,515.00	790,515.00	818,099.00	27,584.00
Liquor licenses	<u>7,900.00</u>	<u>7,900.00</u>	<u>9,424.25</u>	<u>1,524.25</u>
Total Intergovernmental	<u>798,415.00</u>	<u>798,415.00</u>	<u>827,523.25</u>	<u>29,108.25</u>
Charges for Services				
Administrative fees	320,096.00	320,096.00	320,334.37	238.37
Copies	4,000.00	4,000.00	4,229.00	229.00
Fire runs and protection	220,000.00	220,000.00	232,104.12	12,104.12
Other services			1,892.84	
IFT application fee	1,500.00	1,500.00	1,100.00	(400.00)
Other fees	34,697.00	34,697.00	38,411.07	3,714.07
Cable franchise fees	70,000.00	70,000.00	70,417.34	417.34
Telephone franchise fees			<u>17.46</u>	<u>17.46</u>
Total Charges for Services	<u>650,293.00</u>	<u>650,293.00</u>	<u>668,506.20</u>	<u>18,213.20</u>
Fines and Forfeits				
Court fines	<u>65,000.00</u>	<u>65,000.00</u>	<u>42,542.20</u>	<u>(22,457.80)</u>

See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Continued

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES - Concluded				
Other Revenues				
Interest on investments	\$ 22,000.00	\$ 22,000.00	\$ 72,148.77	\$ 50,148.77
Rentals	8,250.00	8,250.00	11,665.00	3,415.00
Reimbursements	77,700.00	98,700.00	116,251.19	17,551.19
Sale of assets		426,000.00	390,365.00	(35,635.00)
Miscellaneous	825.00	825.00	3,140.31	2,315.31
Sale of tax map books			22.00	22.00
Contributions	5,700.00	6,675.00	8,407.59	1,732.59
Total Other Revenues	<u>114,475.00</u>	<u>562,450.00</u>	<u>601,999.86</u>	<u>39,549.86</u>
TOTAL REVENUES	<u>6,034,323.00</u>	<u>6,486,958.00</u>	<u>6,713,957.59</u>	<u>226,999.59</u>
EXPENDITURES				
General Government				
Legislative	84,748.00	84,748.00	61,787.19	22,960.81
Executive/Clerk	413,656.00	415,658.00	346,057.11	69,600.89
Assessor's office	147,884.00	150,531.00	122,097.37	28,433.63
Income tax	152,702.00	153,065.00	143,429.27	9,635.73
Attorney/Jury-Witness	131,130.00	131,130.00	119,160.79	11,969.21
Elections	28,903.00	29,303.00	12,735.10	16,567.90
City Hall	112,908.00	125,532.00	122,350.61	3,181.39
Board of review	3,802.00	3,802.00	2,578.92	1,223.08
Accounting and data processing	412,905.00	414,240.00	371,727.37	42,512.63
MESC Building	48,706.00	76,682.00	988.25	75,693.75
Cable advisory board	17,410.00	17,410.00	3,183.12	14,226.88
Total General Government	<u>1,554,754.00</u>	<u>1,602,101.00</u>	<u>1,306,095.10</u>	<u>296,005.90</u>
Public Safety				
Police	1,924,330.00	1,925,172.00	1,877,045.76	48,126.24
Fire	536,425.00	545,478.00	501,015.58	44,462.42
Total Public Safety	<u>2,460,755.00</u>	<u>2,470,650.00</u>	<u>2,378,061.34</u>	<u>92,588.66</u>
Public Works				
Public services	794,518.00	799,971.00	729,898.80	70,072.20
Community development and enrichment	<u>377,628.00</u>	<u>405,526.00</u>	<u>394,383.18</u>	<u>11,142.82</u>
Other Functions				
Contingency	101,000.00	65,103.00		65,103.00
Contributions to other units	54,931.00	59,149.00	56,647.86	2,501.14
Total Other Functions	<u>155,931.00</u>	<u>124,252.00</u>	<u>56,647.86</u>	<u>67,604.14</u>
TOTAL EXPENDITURES	<u>5,343,586.00</u>	<u>5,402,500.00</u>	<u>4,865,086.28</u>	<u>537,413.72</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>690,737.00</u>	<u>1,084,458.00</u>	<u>1,848,871.31</u>	<u>764,413.31</u>

See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - Concluded
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 889,672.00	\$ 889,672.00	\$ 892,280.63	\$ 2,608.63
Operating transfers out	<u>(1,557,078.00)</u>	<u>(1,955,472.00)</u>	<u>(1,951,707.72)</u>	<u>3,764.28</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(667,406.00)</u>	<u>(1,065,800.00)</u>	<u>(1,059,427.09)</u>	<u>6,372.91</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	23,331.00	18,658.00	789,444.22	770,786.22
FUND BALANCE, JULY 1	<u>1,530,849.34</u>	<u>1,530,849.34</u>	<u>1,530,849.34</u>	
FUND BALANCE, JUNE 30	<u>\$ 1,554,180.34</u>	<u>\$ 1,549,507.34</u>	<u>\$ 2,320,293.56</u>	<u>\$ 770,786.22</u>

See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
State grants	\$ 442,000.00	\$ 442,000.00	\$ 517,195.30	\$ 75,195.30
Federal grants			39,429.68	39,429.68
Interest on investments	4,200.00	4,200.00	883.43	(3,316.57)
Donations	195,000.00	195,000.00	10,564.50	(184,435.50)
TOTAL REVENUES	641,200.00	641,200.00	568,072.91	(73,127.09)
EXPENDITURES				
Highways and streets	818,045.00	818,045.00	664,572.49	153,472.51
DEFICIENCY OF REVENUES OVER EXPENDITURES	(176,845.00)	(176,845.00)	(96,499.58)	80,345.42
OTHER FINANCING SOURCES (USES)				
Operating transfers in	375,071.00	375,071.00	417,376.17	42,305.17
Operating transfers out	(477,733.00)	(477,733.00)	(477,733.00)	
TOTAL OTHER FINANCING SOURCES (USES)	(102,662.00)	(102,662.00)	(60,356.83)	42,305.17
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(279,507.00)	(279,507.00)	(156,856.41)	122,650.59
FUND BALANCE, JULY 1	574,496.12	574,496.12	574,496.12	
FUND BALANCE, JUNE 30	\$ 294,989.12	\$ 294,989.12	\$ 417,639.71	\$ 122,650.59

See accompanying notes to financial statements.

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PARKS AND RECREATION FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Charges for services	\$ 1,058,400.00	\$ 1,058,400.00	\$ 1,245,651.49	\$ 187,251.49
Interest and rent	67,950.00	67,950.00	56,324.23	(11,625.77)
Other revenues	261,100.00	266,610.00	106,532.50	(160,077.50)
Intergovernmental - state	406,500.00	554,265.00	3,000.00	(551,265.00)
TOTAL REVENUES	<u>1,793,950.00</u>	<u>1,947,225.00</u>	<u>1,411,508.22</u>	<u>(535,716.78)</u>
EXPENDITURES				
Culture and recreation	<u>2,356,717.00</u>	<u>2,622,285.00</u>	<u>2,012,935.94</u>	<u>609,349.06</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(562,767.00)</u>	<u>(675,060.00)</u>	<u>(601,427.72)</u>	<u>73,632.28</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	563,589.00	672,882.00	854,890.04	182,008.04
Operating transfers out	<u>(822.00)</u>	<u>(822.00)</u>	<u>(822.00)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>562,767.00</u>	<u>672,060.00</u>	<u>854,068.04</u>	<u>182,008.04</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		(3,000.00)	252,640.32	255,640.32
FUND BALANCE, JULY 1	<u>39,028.05</u>	<u>39,028.05</u>	<u>39,028.05</u>	
FUND BALANCE, JUNE 30	<u>\$ 39,028.05</u>	<u>\$ 36,028.05</u>	<u>\$ 291,668.37</u>	<u>\$ 255,640.32</u>

See accompanying notes to financial statements.

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are police and fire protection, public works and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF LAPEER, MICHIGAN

BALANCE SHEET

GENERAL FUND

JUNE 30, 2005

WITH COMPARATIVE TOTALS FOR JUNE 30, 2004

	2005	2004
ASSETS		
Cash	\$ 542,315.37	\$ 478,686.27
Investments	1,530,000.00	1,020,000.00
Receivables		
Accounts	132,728.51	124,986.71
Property taxes	218,723.33	176,508.68
Due from other funds	98,413.94	81,476.03
Due from other governmental units	10,678.38	9,735.78
Due from state	108,910.00	119,431.00
Inventory	13,512.02	9,395.17
Prepaid expense	80,604.58	105,642.91
TOTAL ASSETS	<u><u>\$ 2,735,886.13</u></u>	<u><u>\$ 2,125,862.55</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 113,766.88	\$ 78,369.29
Accrued payroll and payroll taxes	68,239.41	142,732.27
Due to other funds	3,961.59	4,509.98
Due to other units	145,380.39	130,829.49
Security deposits	55,354.75	48,765.75
Due to state	28,889.55	189,806.43
TOTAL LIABILITIES	<u><u>415,592.57</u></u>	<u><u>595,013.21</u></u>
FUND BALANCE		
Reserved		
Receivables	132,728.51	125,691.59
Prepaid expenses	80,604.58	105,642.91
Inventory	13,512.02	9,395.17
Unreserved - undesignated	2,093,448.45	1,290,119.67
TOTAL FUND BALANCE	<u><u>2,320,293.56</u></u>	<u><u>1,530,849.34</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,735,886.13</u></u>	<u><u>\$ 2,125,862.55</u></u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004

	2005		VARIANCE	2004
	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)	ACTUAL
REVENUES				
Taxes				
Property taxes	\$ 2,148,890.00	\$ 2,147,464.60	\$ (1,425.40)	\$ 2,073,110.88
Penalties and interest	42,000.00	72,547.82	30,547.82	56,638.86
City income taxes	2,135,000.00	2,243,650.17	108,650.17	2,164,035.74
Total Taxes	4,325,890.00	4,463,662.59	137,772.59	4,293,785.48
Federal Grants				
F.E.M.A. Grant				2,847.15
Federal Drug Grant (TNU)	32,000.00	36,050.81	4,050.81	32,066.19
MSHDA Section 8	46,360.00	46,360.00		23,294.50
Highway safety	1,500.00	3,271.18	1,771.18	
School liaison officer		16,320.00	16,320.00	
Total Federal Grants	79,860.00	102,001.99	22,141.99	58,207.84
Licenses and Permits				
Licenses	500.00	425.00	(75.00)	704.00
Permits	4,550.00	7,296.50	2,746.50	3,484.00
Total Licenses and Permits	5,050.00	7,721.50	2,671.50	4,188.00
Intergovernmental				
Sales tax	790,515.00	818,099.00	27,584.00	862,709.00
Liquor licenses	7,900.00	9,424.25	1,524.25	9,220.20
Total Intergovernmental	798,415.00	827,523.25	29,108.25	871,929.20
Charges for Services				
Administrative fees	320,096.00	320,334.37	238.37	298,285.04
Copies	4,000.00	4,229.00	229.00	5,664.00
Fire runs and protection	220,000.00	232,104.12	12,104.12	268,126.06
Other services		1,892.84	1,892.84	2,150.26
IFT application fee	1,500.00	1,100.00	(400.00)	3,750.00
Other fees	34,697.00	38,411.07	3,714.07	31,710.49
Cable franchise fees	70,000.00	70,417.34	417.34	69,894.07
Telephone franchise fees		17.46	17.46	3,359.11
Total Charges for Services	650,293.00	668,506.20	18,213.20	682,939.03
Fines and Forfeits				
Court fines	65,000.00	42,542.20	(22,457.80)	63,256.68

CITY OF LAPEER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Continued

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004

	<u>2005</u>		<u>2004</u>	
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL
REVENUES - Concluded				
Other Revenues				
Interest on investments	\$ 22,000.00	\$ 72,148.77	\$ 50,148.77	\$ 19,106.37
Rentals	8,250.00	11,665.00	3,415.00	44,873.06
Reimbursements	98,700.00	116,251.19	17,551.19	80,938.22
Sale of assets	426,000.00	390,365.00	(35,635.00)	
Miscellaneous	825.00	3,140.31	2,315.31	11,494.23
Sale of tax map books		22.00	22.00	130.00
Contributions	6,675.00	8,407.59	1,732.59	9,644.33
Total Other Revenues	<u>562,450.00</u>	<u>601,999.86</u>	<u>39,549.86</u>	<u>166,186.21</u>
TOTAL REVENUES	<u>6,486,958.00</u>	<u>6,713,957.59</u>	<u>226,999.59</u>	<u>6,140,492.44</u>
EXPENDITURES				
General Government				
Legislative	84,748.00	61,787.19	22,960.81	68,561.75
Executive/Clerk	415,658.00	346,057.11	69,600.89	396,739.41
Assessor's office	150,531.00	122,097.37	28,433.63	112,777.84
Income tax	153,065.00	143,429.27	9,635.73	138,231.19
Attorney/Jury-Witness	131,130.00	119,160.79	11,969.21	120,157.51
Elections	29,303.00	12,735.10	16,567.90	6,337.48
City Hall	125,532.00	122,350.61	3,181.39	112,612.59
Board of Review	3,802.00	2,578.92	1,223.08	2,995.46
Accounting and data processing	414,240.00	371,727.37	42,512.63	347,954.99
MESC Building	76,682.00	988.25	75,693.75	530.75
Cable Advisory Board	17,410.00	3,183.12	14,226.88	13,905.86
Total General Government	<u>1,602,101.00</u>	<u>1,306,095.10</u>	<u>296,005.90</u>	<u>1,320,804.83</u>
Public Safety				
Police	1,925,172.00	1,877,045.76	48,126.24	1,766,991.85
Fire	545,478.00	501,015.58	44,462.42	448,468.62
Total Public Safety	<u>2,470,650.00</u>	<u>2,378,061.34</u>	<u>92,588.66</u>	<u>2,215,460.47</u>
Public Works				
Public services	799,971.00	729,898.80	70,072.20	735,198.73
Community development and enrichment	405,526.00	394,383.18	11,142.82	340,147.66
Other Functions				
Contingency	65,103.00		65,103.00	
Contributions to other units	59,149.00	56,647.86	2,501.14	54,537.89
Total Other Functions	<u>124,252.00</u>	<u>56,647.86</u>	<u>67,604.14</u>	<u>54,537.89</u>
TOTAL EXPENDITURES	<u>5,402,500.00</u>	<u>4,865,086.28</u>	<u>537,413.72</u>	<u>4,666,149.58</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,084,458.00</u>	<u>1,848,871.31</u>	<u>764,413.31</u>	<u>1,474,342.86</u>

CITY OF LAPEER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - Concluded
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004

	2005			2004
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 889,672.00	\$ 892,280.63	\$ 2,608.63	\$ 369,113.09
Operating transfers out	<u>(1,955,472.00)</u>	<u>(1,951,707.72)</u>	<u>3,764.28</u>	<u>(1,490,261.86)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,065,800.00)</u>	<u>(1,059,427.09)</u>	<u>6,372.91</u>	<u>(1,121,148.77)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	18,658.00	789,444.22	770,786.22	353,194.09
FUND BALANCE, JULY 1	<u>1,530,849.34</u>	<u>1,530,849.34</u>		<u>1,177,655.25</u>
FUND BALANCE, JUNE 30	<u>\$ 1,549,507.34</u>	<u>\$ 2,320,293.56</u>	<u>\$ 770,786.22</u>	<u>\$ 1,530,849.34</u>

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to finance particular activities and are created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The Special Revenue Funds of the City are: Major Street, Local Street, Parks and Recreation, Mt. Hope Cemetery, Youth Mini-Grant, Building Department, Oakdale Development, Police K-9 Program, Drug Law Enforcement, D.A.R.E., General Forfeiture, Public Safety Training, and Housing Resource.